

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ
CONVENIENCE TRANSLATION INTO ENGLISH OF CONDENSED
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE INTERIM PERIOD 1 JANUARY - 30 SEPTEMBER 2018
(ORIGINALLY ISSUED IN TURKISH)

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

**CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE INTERIM PERIOD 1 JANUARY - 30 SEPTEMBER 2018**

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OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

CONSOLIDATED STATEMENTS OF POSITION AT 30 SEPTEMBER 2018 AND 31 DECEMBER 2017

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

	Notes	(Unaudited) 30 September 2018	(Audited) 31 December 2017
Assets			
Current assets			
Cash and cash equivalents	4	51,481	228,958
Trade receivables	8	540,023	445,329
<i>Due from related parties</i>	22	125,767	29,656
<i>Due from other parties</i>	8	414,256	415,673
Other receivables		134	68
Due from customers on contract works	10	533,115	312,030
Inventories	9	750,439	413,056
Derivative financial instruments	7	5,009	1,325
Prepaid expenses	14	12,331	190,153
Other current assets	14	43,087	40,632
Total current assets		1,935,619	1,631,551
Non-current assets			
Trade receivables	8	7,580	10,235
Other receivables		406	281
Financial investments	5	100	41
Property, plant and equipment, net	11	105,783	101,009
Intangible assets, net	12	246,930	219,864
Deferred tax asset	20	58,316	46,606
Total non-current assets		419,115	378,036
Total assets		2,354,734	2,009,587

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

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

CONSOLIDATED STATEMENTS OF POSITION AT 30 SEPTEMBER 2018 AND 31 DECEMBER 2017

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

	Notes	Unaudited) 30 September 2018	(Audited) 31 December 2017
Liabilities			
Current liabilities			
Short-term borrowings	6	233,251	429,248
Short-term portion of long-term borrowings	6	277,243	84,410
Trade payables	8	317,941	62,117
<i>Due to related parties</i>	22	6,352	14,094
<i>Due to other parties</i>	8	311,589	48,023
Employee benefit obligations	14	18,306	24,294
Other payables,		47,770	42,549
Current period tax liabilities	20	2,393	-
Deferred income	14	53,927	21,084
Government grants		1,448	1,940
Short-term provisions	13	123,744	403,935
<i>Provisions for employee benefits</i>		10,541	9,286
<i>Other provisions</i>		113,203	394,649
Other current liabilities	14	1,391	2,742
Total current liabilities		1,077,414	1,072,319
Non-current liabilities			
Long-term borrowings	6	440,000	190,000
Government grants		1,054	1,441
Long-term provisions	13	37,166	31,693
Provisions for employee benefits		37,166	31,693
Deferred income	14	668,479	430,580
Total non-current liabilities		1,146,699	653,714
Total liabilities		2,224,113	1,726,033
Equity			
Paid-in share capital		24,000	24,000
Inflation adjustment on share capital		52,743	52,743
Restricted reserves		66,678	59,798
Accumulated other comprehensive income and expense that will not be reclassified to statement of profit or loss		(5,397)	(4,880)
<i>Defined benefit plans remeasurement profits (losses)</i>		(5,397)	(4,880)
Accumulated other comprehensive income and expense that may be reclassified to statement of profit or loss		5,886	2,396
<i>Currency translation differences</i>		5,886	2,396
Retained earnings		72,617	50,074
Net (loss) / profit for the period		(85,906)	99,423
Total equity		130,621	283,554
Total liabilities and equity		2,354,734	2,009,587

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

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE INTERIM PERIOD ENDED AT 30 SEPTEMBER 2018 AND 2017

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

	Notes	(Unaudited)		(Unaudited)	
		1 January - 30 September 2018	1 July - 30 September 2018	1 January - 30 September 2017	1 July - 30 September 2017
Net Sales	15	808,636	320,477	1,369,519	408,291
Cost of sales (-)	15	(602,450)	(216,479)	(1,041,713)	(298,751)
GROSS PROFIT		206,186	103,998	327,806	109,540
Marketing expenses (-)	16	(163,652)	(60,508)	(155,757)	(47,946)
General administrative expenses (-)	16	(56,360)	(16,996)	(47,382)	(12,402)
Research and development expenses (-)	16	(36,557)	(12,104)	(32,425)	(10,436)
Other operating income	17	1,673,062	1,089,932	191,921	53,222
Other operating expenses (-)	17	(1,619,747)	(1,061,945)	(141,223)	(33,406)
OPERATING PROFIT		2,932	42,377	142,940	58,572
Income from investing activities		180	180	1,246	25
Expense from investing activities (-)		(1)	-	-	-
OPERATING INCOME BEFORE FINANCIAL (LOSSES)/PROFIT		3,111	42,557	144,186	58,597
Financial income	18	26,280	14,888	8,692	1,589
Financial expense (-)	19	(124,468)	(66,502)	(102,109)	(37,497)
(LOSS) / PROFIT BEFORE TAX		(95,077)	(9,057)	50,769	22,689
Tax income/(expense) from continued operations					
- Current tax expense (-)	20	(2,393)	(2,280)	-	-
- Deferred tax income/(expense)	20	11,564	4,150	-	-
(LOSS) / PROFIT FOR THE PERIOD		(85,906)	(7,187)	50,769	22,689
Items that will not be reclassified to statement of profit or loss					
Remeasurement (losses)/gains		(663)	565	(1,140)	737
Deferred tax income/(expense)		146	(124)	-	-
Items that may be reclassified to statement of profit or loss					
Currency translation differences		3,490	2,580	446	162
Other comprehensive income /(expenses)		2,973	3,021	(694)	899
TOTAL COMPREHENSIVE (EXPENSE) / INCOME		(82,933)	(4,166)	50,075	23,588
(Loss) / earnings per share (Piaster)	21	(0.358)	(0.030)	0.212	0.095

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

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE INTERIM PERIOD AT 30 SEPTEMBER 2018 AND 2017

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

				Accumulated other comprehensive income and expense that will not be reclassified to statement of profit or loss	Accumulated other comprehensive income and expense that may be reclassified to statement of profit or loss				
	Paid in share capital	Inflation adjustments	Restricted reserves	Remeasurement losses on defined benefit plans	Currency translation differences	Retained earnings	Net pfofit / (loss) for the period	Total equity	
30 September 2017									
Opening balances	24,000	52,743	54,015	(4,986)	1,329	46,132	69,725	242,958	
Transfers	-	-	5,880	-	-	63,845	(69,725)	-	
Dividends paid	-	-	-	-	-	(60,000)	-	(60,000)	
Total comprehensive income	-	-	-	(1,140)	446	-	50,769	50,075	
Closing balances	24,000	52,743	59,895	(6,126)	1,775	49,977	50,769	233,033	
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)	-	
Dividends 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	

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

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE INTERIM PERIOD ENDED AT 30 SEPTEMBER 2018 AND 2017

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

	Notes	(Unaudited) 1 January - 30 September 2018	(Unaudited) 1 January - 30 September 2017
CASH FLOWS FROM OPERATING ACTIVITIES			
Net (loss) / profit for the period		(85,906)	50,769
Adjustments to reconcile income before taxes to net cash flows from operating activities		210,607	184,509
Depreciation and amortization	11, 12	44,568	46,649
Adjustments in relation to impairment		14,966	2,703
- Provision for doubtful receivables	8	15,213	3,044
- Provision for inventories	9	(247)	(341)
Adjustments in relation to provision		49,523	47,901
- Provision for employee benefits	13	10,904	5,971
- Warranty provision expenses	13	38,619	41,930
Adjustments in relation to interest income and expenses		82,364	74,972
- Interest income on time deposits	18	(2,442)	(621)
- Interest expense on borrowings	19	84,806	75,593
Adjustments in relation to unrealised foreign exchange gains and losses		25,997	20,099
Adjustments in relation to fair value gains and losses		(6,632)	(6,570)
- Fair value losses/(gains) on financial derivative instruments, net		(6,632)	(6,570)
Adjustments in relation to gains or losses on sales of property, plant and İle equipment		(179)	(1,245)
- Gain on sale of property, plant and equipments		(179)	(1,245)
Changes in net working capital		(253,847)	(518,254)
Change in trade receivables		(107,443)	(117,250)
Change in due from customers on contract works		(221,085)	(45,017)
Change in inventories		(337,136)	4,556
Change in trade payables		255,824	(255,517)
Other changes		155,993	(105,026)
- Changes in other operating assets		175,367	49,873
- Changes in other operating liabilities		(19,374)	(154,899)
Cash flows from operations		(129,146)	(282,976)
Payments in relation to employee benefits	13	(6,094)	(3,676)
Payments in relation to other provisions	13	(40,864)	(30,785)
Other cash collections		2,948	6,721
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash outflows from purchases due to obtaining control of subsidiaries		(58)	-
Proceeds from sale of property, plant and equipment and intangible assets		907	1,674
- Proceeds from sale of property, plant and equipment		907	1,674
Cash outflows due to purchase of property, plant and equipment and intangible assets		(77,136)	(64,479)
- Purchase of property, plant and equipment	11	(14,333)	(6,324)
- Purchase of intangible assets	12	(62,803)	(58,155)
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash inflow from to borrowings		1,209,070	846,255
- Proceeds from bank borrowings		1,209,070	846,255
Cash outflow due to repayment of borrowings		(998,826)	(341,832)
- Repayments of borrowings		(998,826)	(341,832)
Dividends paid		(70,000)	(60,000)
Interest paid		(74,210)	(66,970)
Interest received		2,442	621
NET (DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS BEFORE THE EFFECT OF CURRENCY TRANSLATION DIFFERENCES			
		(180,967)	4,553
Currency translation difference on cash and cash equivalents		3,490	446
NET (DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS			
		(177,477)	4,999
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD			
	4	228,958	38,598
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD			
	4	51,481	43,597

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

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS AT 30 SEPTEMBER 2018

(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, 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 Maltepe / İstanbul

Plant:

Atatürk Cad. No: 6 54580 Arifiye / Sakarya

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

Legal Name	Nature of operations	Country	Capital	Ownership (%)
Otokar Europe SAS	Trade	Fransa	100 bin Avro	100.00

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

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

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

	30 September 2018		31 December 2017	
	Period end	Average	Period end	Average
Total personnel number	1,948	2,067	2,147	2,205

The consolidated financial statements for the period ended 30 September 2018 were authorized for issue and signed by the Board of Directors of Otokar on 2 November 2018. The accompanying consolidated financial statements may be amended by the General Assembly.

Otokar is registered to the Capital Market Board (“CMB”) and its shares are listed on the Borsa Istanbul A.Ş. (“BIST”) since 1995. As of 30 September 2018, 27.45% of the shares are quoted on the BIST.

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS AT 30 SEPTEMBER 2018

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

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

As of 30 September 2018, the principal shareholders and their respective shareholding percentages are as follows:

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

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

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

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

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

NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

2.1 Basis of presentation of consolidated financial statements

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

The Group maintains its books of account and prepares its statutory financial statements in Turkish Lira (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, 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.

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS AT 30 SEPTEMBER 2018

(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)

For the period ended 30 September 2018, 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 2017.

The condensed interim consolidated financial statements are presented in accordance with “Announcement regarding with TAS Taxonomy” which was published on 2 June 2016 by POA and the format and mandatory information recommended by CMB.

Functional and presentation currency

Functional and presentation currency of the Company is TRY.

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 30 September 2018 and 31 December 2017 have been restated by applying the relevant conversion factors through carrying additions after 31 December 2004 at their nominal values.

2.2 Accounting errors and changes in accounting estimates

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

If changes in accounting estimates are related to only one period, they are recognised in the period when changes are applied; if changes in estimates are related to future periods, they are recognized both in the period where the change is applied and future periods prospectively. The accounting policies except the situation stated below used in the preparation of these consolidated financial statements for the period ended 30 September 2018 are consistent with those used in the preparation of financial statements for the year ended 31 December 2017.

2.3 Changes in accounting policies

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

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS AT 30 SEPTEMBER 2018

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

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

2.3 Changes in accounting policies (Continued)

2.3.1 TFRS 15 “Revenue From Contracts with Customers”

Revenue recognition

The Group adopted TFRS 15, “Revenue From Contracts with Customers” from 1 January 2018 which proposes a five step model framework mentioned below for recognizing the revenue.

- Identify the contact with customers
- Identify separate performance obligations in the contract
- Determine the transaction price in contract
- Allocate the transaction price to the performance obligations in the contract
- Recognise revenue

The Group assess the goods or services promised in a contract with a customer and identify as a performance obligation each promise to transfer to the customer.

For each performance obligation identified, the entity determine at contract inception whether it satisfies the performance obligation over time or satisfies the performance obligation at a point in time. If the Group transfers control of a good or service over time and therefore satisfies a performance obligation and recognises revenue over time.

The Group recognise revenue when the entity satisfies a performance obligation by transferring a promised good or service to the customer. An asset is transferred when the customer obtains control of that asset or service.

The Group considers the following in the assessment of transfer of control of goods sold and services,

- a) The entity has a right to payment for the goods or service,
- b) The customer has legal title to the goods or service,
- c) The entity has transferred physical possession of the asset,
- d) The customer has the significant risks and rewards related to the ownership of the goods or services,
- e) The customer has accepted the goods or services.

The Group does not adjust the promised amount of consideration for the effects of a significant financing component since the Group expects, at contract inception, that the period between when the entity transfers a promised good or service to a customer and when the customer pays for that good or service will be one year or less. If the financing component is significant in revenue, future collections are discounted by the interest rate in financing component. The difference is recognised as income from operating activities in current period.

First time adoption of TFRS 15 “Revenue From Contracts with Customers”

The Group assessed the cumulative effect of initial application of TFRS 15 “Revenue From Contracts with Customers” which replaced “TMS 18 Revenue” retrospectively (“cumulative effect approach”) as of the date of first time adoption which is 1 January 2018 and concluded that the standard does not have a significant retrospective effect.

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS AT 30 SEPTEMBER 2018

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

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

2.3 Changes in accounting policies (Continued)

2.3.2 TFRS 9 “Financial Instruments” Standard

Classification and measurement

The Group classifies the financial assets as three groups such as subsequently measured at amortised cost, fair value through other comprehensive income and fair value through profit or loss. The classification is made on the basis of the entity’s business model for managing the financial assets and the contractual cash flow characteristics of the financial asset.

“*Financial assets measured at amortised cost*”, are the financial assets held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, not have an active market and non derivative financial assets. “Cash and cash equivalents”, “trade receivables” are classified as financial assets measured at amortised cost. They are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method. Gains and losses recognised as a result of the fair value adjustments of financial assets amortised at cost and non derivative financial assets are included in the income statement.

“*Financial assets measured at fair value through other comprehensive income*” are consist of assets except for the assets measured at amortised cost and at fair value through other comprehensive income Any gain or loss arising from fair value is recognised in income statement.

The changes in the classification of financial assets and liabilities in accordance with TFRS 9 is explained below. Those reclassification differences do not have any impact of the measurement of financial instruments asset for financial assets.

Financial assets	According to TAS 39 previous classification	According to TFRS 9 new classification
Cash and cash equivalents	Loans and receivables	Amortised cost
Trade receivables	Loans and receivables	Amortised cost
Derivative instruments	Fair value through profit or loss	Fair value through profit or loss
Financial liabilities	According to TAS 39 previous classification	According to TFRS 9 new classification
Derivative instruments	Fair value through profit or loss	Fair value through profit or loss
Borrowings	Amortised cost	Amortised cost
Trade payables	Amortised cost	Amortised cost

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS AT 30 SEPTEMBER 2018

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

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

2.3 Changes in accounting policies (Continued)

Impairment

The recognition of credit losses defined in TMS 39 "Financial Instruments: Recognition and Measurement" which was effective before 1 January 2018 is replaced by recognition of expected credit losses. The objective of the impairment requirements is to recognise lifetime expected credit losses for all financial instruments for which there have been significant increases in credit risk since initial recognition whether assessed on an individual or collective basis considering all reasonable and supportable information, including that which is forward-looking.

Trade receivables

The Group has chosen "practical expedient" explained in TFRS 9 for the calculation of impairment of trade receivables (with maturities less than one year) that do not contain a significant financing component and accounted at amortised cost. Accordingly, the Group measured the loss allowance for trade receivables at an amount equal to lifetime expected credit losses in the previous reporting period, but determines at the current reporting date that is no longer met, the entity shall measure the loss allowance at an amount equal to 12-month expected credit losses at the current reporting date.

The Group uses a provision matrix in the calculation of expected credit losses. Provision rate is calculated based on the overdue days of trade receivables and the rates are revised each reporting period if necessary. The change in expected credit losses is recognised in operational expense/income in income statement.

First time adoption of TFRS 9 "Financial assets"

The Group assessed the cumulative effect of initial application of TFRS 9 "Financial Instruments" which replaced "TMS 39 Financial Instruments: Recognition and Measurement" retrospectively as of the date of first time adoption which is 1 January 2018 and concluded that the standard does not have a significant retrospective effect.

2.3.3 New and revised standards and comments:

a. Standards, amendments and interpretations applicable as at 30 September 2018

Explanations of the effects of the new TAS / TFRS on the financial statements:

- a) title of TAS / TFRS,
- b) the accounting policy change, if any, has been applied considering the transition principles
- c) clarification of the changes in the accounting policy,
- d) disclosure of transition principles, if any,
- e) the effects of the transitional principles, if any, on future periods,
- f) as much as possible, adjustments related to the current and each previous period presented:
 - i. shall disclose the effects for each financial statement line item and
 - ii. if the "TAS 33, Earnings per Share" standard is applicable for the Company, the amounts of ordinary and diluted earnings per share should be recalculated.
- g) if possible, effects of adjustments for non-presentation periods and
- h) If retrospective application is not possible for any period or periods, the events leading to this and the date from which the change in accounting policy is applied and how it is applied should be disclosed,

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS AT 30 SEPTEMBER 2018

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

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

2.3 Changes in accounting policies (Continued)

- **IFRS 9, ‘Financial instruments’**; effective from annual periods beginning on or after 1 January 2018. This standard replaces the guidance in TAS 39. It includes requirements on the classification and measurement of financial assets and liabilities; it also includes an expected credit losses model that replaces the current incurred loss impairment model.
- **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.
- **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.
- **Amendments to IFRS 4, ‘Insurance contracts’**; regarding the implementation of IFRS 9, ‘Financial Instruments’; effective from annual periods beginning on or after 1 January 2018. These amendments introduce two approaches: an overlay approach and a deferral approach. The amended standard will:
 - give all companies that issue insurance contracts the option to recognise in other comprehensive income, rather than profit or loss, the volatility that could arise when IFRS 9 is applied before the new insurance contracts standard is issued; and
 - give companies whose activities are predominantly connected with insurance an optional temporary exemption from applying IFRS 9 until 2021. The entities that defer the application of IFRS 9 will continue to apply the existing financial instruments standard IAS 39.
- **Amendment to TAS 40, ‘Investment property’**; relating to transfers of investment property; effective from annual periods beginning on or after 1 January 2018. These amendments clarify that to transfer to, or from, investment properties there must be a change in use. To conclude if a property has changed use there should be an assessment of whether the property meets the definition. This change must be supported by evidence.
- **Amendments to IFRS 2, ‘Share based payments’**; on clarifying how to account for certain types of share-based payment transactions; effective from annual periods beginning on or after 1 January 2018. This amendment clarifies the measurement basis for cash-settled, share-based payments and the accounting for modifications that change an award from cash-settled to equity-settled. It also introduces an exception to the principles in IFRS 2 that will require an award to be treated as if it was wholly equity-settled, where an employer is obliged to withhold an amount for the employee’s tax obligation associated with a share-based payment and pay that amount to the tax authority.

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

2.3 Changes in accounting policies (Continued)

Annual improvements 2014 - 2016; effective from annual periods beginning on or after 1 January 2018. These amendments impact 2 standards:

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

- **TFRIC 22, ‘Foreign currency transactions and advance consideration’**; effective from annual periods beginning on or after 1 January 2018. This TFRIC addresses foreign currency transactions or parts of transactions where there is consideration that is denominated or priced in a foreign currency. The interpretation provides guidance for when a single payment/receipt is made as well as for situations where multiple payments/receipts are made. The guidance aims to reduce diversity in practice.

b. Standards, amendments and interpretations effective after 30 September 2018

- **Amendment to IFRS 9, ‘Financial instruments’**; effective from annual periods beginning on or after 1 January 2019. This amendment confirms that when a financial liability measured at amortised cost is modified without this resulting in de-recognition, a gain or loss should be recognised immediately in profit or loss. The gain or loss is calculated as the difference between the original contractual cash flows and the modified cash flows discounted at the original effective interest rate. This means that the difference cannot be spread over the remaining life of the instrument which may be a change in practice from TAS 39.
- **Amendment to TAS 28, ‘Investments in associates and joint venture’**; effective from annual periods beginning on or after 1 January 2019. These amendments clarify that companies account for long-term interests in associate or joint venture to which the equity method is not applied using IFRS 9.
- **IFRS 16, ‘Leases’**; effective from annual periods beginning on or after 1 January 2019, this standard replaces the current guidance in TAS 17 and is a far reaching change in accounting by lessees in particular. Under TAS 17, lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). 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.

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

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

2.3 Changes in accounting policies (Continued)

- **TFRIC 23, ‘Uncertainty over income tax treatments’**; effective from annual periods beginning on or after 1 January 2019. This TFRIC clarifies how the recognition and measurement requirements of TAS 12 ‘Income taxes’, are applied where there is uncertainty over income tax treatments. The IFRS IC had clarified previously that TAS 12, not TAS 37 ‘Provisions, contingent liabilities and contingent assets’, applies to accounting for uncertain income tax treatments. TFRIC 23 explains how to recognise and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment. An uncertain tax treatment is any tax treatment applied by an entity where there is uncertainty over whether that treatment will be accepted by the tax authority. For example, a decision to claim a deduction for a specific expense or not to include a specific item of income in a tax return is an uncertain tax treatment if its acceptability is uncertain under tax law. TFRIC 23 applies to all aspects of income tax accounting where there is an uncertainty regarding the treatment of an item, including taxable profit or loss, the tax bases of assets and liabilities, tax losses and credits and tax rates.
- **IFRS 17, ‘Insurance contracts’**; effective from annual periods beginning on or after 1 January 2021. This standard replaces IFRS 4, which currently permits a wide variety of practices in accounting for insurance contracts. IFRS 17 will fundamentally change the accounting by all entities that issue insurance contracts and investment contracts with discretionary participation features.

Annual improvements 2015-2017; effective from annual periods beginning on or after 1 January 2019. These amendments include minor changes to:

- IFRS 3, ‘Business combinations’, - a company remeasures its previously held interest in a joint operation when it obtains control of the business.
- IFRS 11, ‘Joint arrangements’, - a company does not remeasure its previously held interest in a joint operation when it obtains joint control of the business.
- IAS 12, ‘Income taxes’ - a company accounts for all income tax consequences of dividend payments in the same way.
- IAS 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 IAS 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.

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

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

2.4 Significant accounting judgments and estimates

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

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

- a) In the context of TAS 11 “Construction contracts” assumptions are made related to total cost of and profitability of projects.
- b) Deferred tax asset is recognised to the extent that taxable profit will be available against which the deductible temporary differences can be utilized. When taxable profit is probable, deferred tax asset is recognised for all deductible temporary differences. For the year ended 30 September 2018, since the Management believed the indicators demonstrating that the Group will have taxable profits in the foreseeable future- are reliable, deferred tax asset has been recognized.
- c) The Group determines warranty provision by considering the past warranty expenses and remaining warranty period per vehicle.
- d) The Group has made certain important assumptions based on experiences of technical personnel in determining useful economic lives of property, plant and equipment and intangible assets.

2.5 Summary of significant accounting policies

Group accounting

The consolidated financial statements include the accounts of the parent company, Otokar and its subsidiaries on the basis set out in sections below. The financial statements of the companies included in the scope of consolidation have been prepared as of the date of the consolidated financial statements and have been prepared in accordance with IFRS. 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.

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS AT 30 SEPTEMBER 2018

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

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

2.5 Summary of significant accounting policies(Continued)

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 30 September 2018 and 31 December 2017:

Subsidiaries	2018		2017	
	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 financial activities of “Otokar Land System LLC” does not materially affect the financial statements, the investment was presented under as financial investments.

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 15). Thus, segment reporting is not performed.

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NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS AT 30 SEPTEMBER 2018

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

NOTE 4 - CASH AND CASH EQUIVALENTS

	30 September 2018	31 December 2017
Banks		
- Time deposits	12,152	214,933
- Demand deposits	34,622	12,434
Cheques and notes receivable	4,593	1,513
Other	114	78
	51,481	228,958

(As of 31 December 2017, TRY214,933 thousand of the total amount of time deposits amounting to TRY214,849 thousand is denominated in foreign currency and the annual effective interest rate is 1.00% and has a maturity of 4 days. The annual effective interest rate of the remaining TRY84 thousand is 8.25% and has a maturity of 4 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 2018, the Group has restricted bank deposit amounting to TRY0,2 thousand (31 December 2017: TRY0,2 thousand).

NOTE 5 - FINANCIAL INVESTMENTS

The Company has a subsidiary named “Otokar Land Systems LLC” with paid in capital of AED50 thousand (TRY41 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.

The Company has a subsidiary named “Otokar Europe Filiala Bucuresti S.R.L.” with paid in capital of RON46 thousand (approximately TRY59 thousand), established at 28 February 2018 for the purpose of managing the exportation operations in Romania and increasing the external sales of Otokar SAS, Company’s subsidiary. Since the operations of Otokar Europe Filiala Bucuresti S.R.L. has not started yet, it has not been subject to consolidation and has been presented at historical cost value..

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NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS AT 30 SEPTEMBER 2018

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

NOTE 6 - BORROWINGS

30 September 2018

	Maturities	Interest rate (%)	TRY
Short-term bank borrowings (*)			
Denominated in TRY (**)	1 October 2018 - 12 November 2018	0.00-35.35	163,407
Denominated in EUR	17 November 2018	5.60	69,844
			233,251

(*) Bearing fixed interest rate.

30 September 2018

	Maturities	Interest rate (%)	TRY
Principals and interest accruals on the short-term portion of long-term borrowings (*)			
Denominated in TRY		12.60-33.55	277,243
			277,243

30 September 2018

	Maturities	Interest rate (%)	TRY
Long-term bank borrowings (*) (**)			
Denominated in TRY	9 March 2020 - 7 January 2021	16.28-33.55	440,000
			440,000

(*) Bearing fixed interest rate.

(**) Weighted average maturity days of long-term borrowings are 602 days.

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS AT 30 SEPTEMBER 2018

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

NOTE 6 – BORROWINGS (Continued)

31 December 2017	Maturities	Interest rate (%)	TRY
Short-term bank borrowings (*)			
Denominated in TRY	2 January 2018	0.00	42
Payables from factoring borrowings	21 February 2018	-	-
	22 March 2018	16.38 - 18.01	429,206
			429,248
Principals and interest accruals on the short-term portion of long-term borrowings (*)			
Denominated in TRY		12.60-14.44	84,410
			84,410
31 December 2017			
	Maturities	Interest rate (%)	TRY
Long-term bank borrowings (*) (**)			
Denominated in TRY	1 February 2019 - 20 February 2019	14.27 - 14.44	190,000
			190,000

(*) Bearing fixed interest rate.

(**) Weighted average maturity days of long-term borrowings are 405 days.

As of 30 September 2018, the Group has not provided any guarantees for the borrowings (31 December 2017: None).

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NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS AT 30 SEPTEMBER 2018

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NOTE 7 - DERIVATIVE FINANCIAL INSTRUMENTS

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

	Contract amount	Current period contract maturity	Fair value assets
30 September 2018			
Forward transactions	679,208	4 October 2018 - 11 October 2018	5,009
Short-term derivative financial instruments	679,208		5,009
Total derivative financial instruments	679,208		5,009
31 December 2017			
Forward transactions	519,971	4 January 2018 - 25 January 2018	1,325
Short-term derivative financial instruments	519,971		1,325
Total derivative financial instruments	519,971		1,325

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NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS AT 30 SEPTEMBER 2018

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NOTE 8 - TRADE RECEIVABLES AND PAYABLES

Trade receivables

	30 September 2018	31 December 2017
Trade receivables, net	341,479	268,152
Notes receivables, net	121,613	181,506
	463,092	449,658
Less: provision for doubtful receivables	(48,836)	(33,985)
Short-term trade receivables	414,256	415,673
Trade receivables from related parties (Note 22)	125,767	29,656
Short-term trade receivables	540,023	445,329
Long-term notes receivable, net	7,580	10,235
Long-term trade receivables	7,580	10,235

As of 30 September 2018, the average maturity of trade receivables is between 60-90 days (excluding notes receivables) (31 December 2017 60-90 days).

As of 30 September 2018 and 31 December 2017, 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 minibuses and bus sales to dealers and trailer and armored vehicle sales. As of 30 September 2018, the total trade receivable from dealers amounting to TRY103,467 thousand (31 December 2017: TRY157,074 thousand), after provision provided for doubtful receivables, has been secured by mortgages and guarantees at the amount of TRY103,467 thousand (31 December 2017: TRY193,792 thousand)

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

30 September 2018	Trade receivables
1- 30 day past due	-
1- 3 month past due	-
3- 12 month past due	-
1- 5 year past due	318
Over 5 years past due	-
Total	318

Amount secured with guarantees

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NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS AT 30 SEPTEMBER 2018

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

NOTE 8 - TRADE RECEIVABLES AND PAYABLES (Continued)

31 December 2017	Trade receivables
1- 30 day past due	-
1- 3 month past due	-
3- 12 month past due	-
1- 5 year past due	236
Over 5 years past due	-
Total	236
Amount secured with guarantees	236

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

The movement of the provision for doubtful receivables for the years ended 30 September 2018 and 2017 are as follows:

	2018	2017
As of 1 January	33,985	28,910
Collections	(362)	(10)
Currency translation differences	702	139
Increase during the year	14,511	2,905
30 September	48,836	31,944

Trade payables

	30 September 2018	31 December 2017
Trade payables, net	311,183	47,667
Notes payables, net	406	356
Short-term other trade payables	311,589	48,023
Trade payables to related parties (Note 22)	6,352	14,094
Short-term trade payables	317,941	62,117

As of 30 September 2017, average payment term for trade payables is 45-60 days (31 December 2017: 45-60 days).

As of 30 September 2018 and 31 December 2017, the fair values of trade payables approximate to their carrying values due to short-term maturity of those payables.

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NOTE 9 - INVENTORIES

	30 September 2018	31 December 2017
Raw material	308,316	163,088
Semi-finished goods	63,940	14,140
Finished goods	152,880	83,286
Merchandise goods	88,494	75,478
Goods in transit	137,262	77,764
Impairment for inventories (*)	(453)	(700)
Total	750,439	413,056

(*) TRY127 thousand of impairment is related to finished goods (31 December 2017: TRT155 thousand) and TRY326 thousand is related to merchandises (31 December 2017: TRY545 thousand). The impairment has been accounted for under cost of sales.

NOTE 10 - DUE FROM CUSTOMERS ON CONTRACT WORKS

Receivables from uncompleted contracts are TRY533,115 thousand as of 30 September 2018 (31 December 2017: TRY312,030 thousand) after offsetting with short-term advances received.

As of 30 September 2018, the short-term advances received by the Group and deferred revenues related with ongoing projects is none in the consolidated financial statements (31 December 2017: None).

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NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS AT 30 SEPTEMBER 2018

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NOTE 11 - PROPERTY, PLANT AND EQUIPMENT

Movements of property, plant and equipment and related accumulated depreciation for the years ended 30 September 2018 and 2017 are as follows:

	1 January 2018	Additions	Currency translation differences	Disposals	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**

	1 January 2017	Additions	Currency translation differences	Disposals	Transfers	30 September 2017
Cost:						
Land	37,457	-	-	-	-	37,457
Land improvements	11,970	3	-	-	-	11,973
Buildings	60,633	-	-	-	-	60,633
Machinery and equipment	106,176	1,694	77	(500)	-	107,447
Motor vehicles	9,613	638	-	(610)	-	9,641
Furniture and fixtures	33,986	2,311	25	-	8	36,330
Leasehold improvements	2,116	15	-	-	-	2,131
Construction in process	696	1,561	-	-	(8)	2,249
	262,647	6,222	102	(1,110)	-	267,861

Accumulated depreciation

Land improvements	(7,479)	(409)	-	-	-	(7,888)
Buildings	(37,501)	(6,512)	-	-	-	(44,013)
Machinery and equipment	(86,576)	(3,552)	(39)	500	-	(89,667)
Motor vehicles	(5,633)	(488)	-	181	-	(5,940)
Furniture and fixtures	(18,839)	(2,574)	(19)	-	-	(21,432)
Leasehold improvements	(1,517)	(221)	-	-	-	(1,738)
	(157,545)	(13,756)	(58)	681	-	(170,678)

Net book value **105,102** **97,183**

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NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS AT 30 SEPTEMBER 2018

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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 years ended at 30 September 2018 and 2017 are as follows:

	30 September 2018	30 September 2017
Research and development expenses	34,724	31,359
Cost of goods sold	3,712	3,884
Depreciation on inventories	1,694	959
Development projects in process	1,652	1,458
General administrative expenses	1,403	1,237
Selling and marketing expenses	965	952
Costs related to uncompleted contracts	38	6,742
Currency translation differences	380	58
	44,568	46,649

NOTE 12 - INTANGIBLE ASSETS

Movements of intangible assets and related accumulated amortisation for the years ended 30 September 2018 and 2017 are as follows:

	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
Developments 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

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NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS AT 30 SEPTEMBER 2018

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NOTE 12 - INTANGIBLE ASSETS (Continued)

	1 January 2017	Additions	Currency translation differences	Disposals	Transfers	30 September 2017
Cost:						
Other intangible assets	18,028	840	-	-	-	18,868
Development costs	297,383	-	-	-	-	297,383
Development projects in progress	38,079	57,315	-	-	-	95,394
	353,490	58,155	-	-	-	411,645
Accumulated amortization:						
Other intangible assets	(14,078)	(1,476)	-	-	-	(15,554)
Development costs	(157,480)	(31,359)	-	-	-	(188,839)
	(171,558)	(32,835)	-	-	-	(204,393)
Net book value	181,932					207,252

NOTE 13 - PROVISIONS, CONTINGENT ASSETS AND LIABILITIES

Short-term provisions

	30 September 2018	31 December 2017
Provision for other costs (*)	43,529	324,431
Warranty provision	50,820	53,065
Short-term provisions for employee benefits	10,541	9,286
Other	18,854	17,153
Total	123,744	403,935

(*) 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.

Warranty provision

The Group provides 2 years of warranty for vehicles sold. Therefore, warranty expense provision has been recorded only for the vehicles under guarantee as of the balance sheet date.

Movements of provision for warranty expenses during the periods ended 30 September 2018 and 2017 are as follows:

	2018	2017
1 January	53,065	41,385
Increase/(decrease) during the year	38,619	41,930
Claim payments	(40,864)	(30,785)
30 September	50,820	52,530

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NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS AT 30 SEPTEMBER 2018

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

Provisions for employee benefits

	30 September 2018	31 December 2017
Provision for employment termination benefits	37,166	31,693
Provision for unused vacation	10,541	9,286
Total	47,707	40,979

Employment termination benefits

The amount payable consists of one month’s salary limited to a maximum of TRY5,434.42 in full for each year of service as of 30 September 2019 (31 December 2017: TRY4,732.48 in full).

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

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

The termination indemnity ceiling is revised semi-annually and the ceiling amounting to TRY5,434.42 in full (1 January 2018: TRY5,001.76 in full), which is effective from 1 July 2018, has been taken into consideration in calculation of retirement benefit provision in the consulate.

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

	30 September 2018	31 December 2017
Net discount rate (%)	4.95	4.95
Turnover rate to estimate the probability of retirement (%)	96.93	97.28

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

The movements of the provision for employment termination benefits for the period ended 30 September 2018 and 2017 are as follows:

	2018	2017
1 January	31,693	28,088
Interest expense	2,151	1,906
Charge for the period	8,753	4,065
Remeasurement differences	663	1,140
Payments	(6,094)	(3,676)
30 September	37,166	31,523

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NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS AT 30 SEPTEMBER 2018

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

Provision for unused vacation

The movement of unused vacation days for the interim periods ended 30 September 2018 and 2017 is as follows:

	2018	2017
1 January	9,286	8,491
Charge for the period, net	1,255	421
30 September	10,541	8,912

Commitments and contingencies

As of 30 September 2018 and 31 December 2017, the tables which represent the position of guarantees, pledges and mortgages are as follows:

	30 September 2018	31 December 2017
a. Total amount of guarantees, pledges and mortgages given the name of legal entity	1,618,666	1,853,700
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	-	-
	1,618,666	1,853,700

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

	30 September 2018		31 December 2017	
	Original currency	TRY equivalent	Original currency	TRY equivalent
USD	194,732	1,166,482	397,404	1,498,967
EUR	58,187	404,431	55,818	252,047
TRY	47,753	47,753	102,686	102,686
		1,618,666		1,853,700

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NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS AT 30 SEPTEMBER 2018

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

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

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

	30 September 2018	31 December 2017
Guarantee letters given		
Under secretariat of Ministry of Defense	300,207	1,090,079
Other	1,318,459	763,621
	1,618,666	1,853,700

Guarantee letters

a) Guarantees given as of 30 September 2018 and 31 December 2017 are as follows:

	30 September 2018	31 December 2017
Bank letters of guarantee (*)	1,618,666	1,853,700
	1,618,666	1,853,700

(*) Bank letters of guarantee amounting to TRY177,800 are given to Secretariat of Ministry of Defense for Altay Project (31 December 2017: TRY938,865)

b) Guarantees received as of 30 September 2018 and 31 December 2017 are as follows:

	30 September 2018	31 December 2017
Bank letters of guarantee (**)	456,601	651,824
Guarantee notes	24,854	14,550
Mortgages received	20	20
	481,475	666,394

(**) Bank letters of guarantee amounting to TRY147,982 are obtained from the sub-contractors for Altay Project (31 December 2016: TRY340,829).

Contingent assets

The legal case related to tax deduction for the research and development activities in 2011-2012-2013-2014 was concluded in favor of the Group and the same cases is still in progress at appeal phase. Total amount of cases at the appeal phase amount to TL36,169. The amount of the legal case for 2015 is TL4,557. The case was also concluded in favor of the Group but the appeal phase is still in progress.

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS AT 30 SEPTEMBER 2018

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

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

a) Prepaid expenses:

	30 September 2018	31 December 2017
Advances given	2,413	185,594
Prepaid expenses	9,918	4,559
	12,331	190,153

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

b) Other current assets:

	30 September 2018	31 December 2017
Value added tax receivables	39,318	39,832
Other	3,769	800
	43,087	40,632

c) Deferred revenues:

Deferred revenues - short term	30 September 2018	31 December 2017
Advances received	52,002	9,674
Deferred maintenance revenues (*)	-	9,437
Other deferred income (**)	1,925	1,973
	53,927	21,084

Deferred revenues - long term	30 September 2018	31 December 2017
Advance receipts (***)	642,412	404,513
Other deferred income (**)	26,067	26,067
	668,479	430,580

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

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

(***) The pre-advance received from Otokar Land Systems LLC's subsidiary for the United Arab Emirates (BAE) Project, which was publicly disclosed to the public on 20 February 2017.

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NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS AT 30 SEPTEMBER 2018

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

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

d) Employee benefits obligation:

	30 September 2018	31 December 2017
Social security payables	11,237	6,197
Payables to employees	4,273	11,764
Taxes and funds payable	2,796	6,333
	18,306	24,294

e) Other current liabilities:

	30 September 2018	31 December 2017
Deferred special consumption tax	332	444
Taxes and funds payable	346	1,709
Other	713	589
	1,391	2,742

NOTE 15 - REVENUE AND COST OF SALES

Net sales

	1 January - 30 September 2018	1 July - 30 September 2018	1 January - 30 September 2017	1 July - 30 September 2017
Domestic sales	446,258	113,358	1,032,213	271,176
Export sales	371,210	210,402	343,349	138,700
Gross Sales	817,468	323,760	1,375,562	409,876
Less: sales discounts and returns	(8,832)	(3,283)	(6,043)	(1,585)
Net sales	808,636	320,477	1,369,519	408,291

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS AT 30 SEPTEMBER 2018

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

NOTE 15 - REVENUE AND COST OF SALES (Continued)

Sales of the Group for the years ended 30 September 2018 and 31 December 2017 in terms of the products are as follows:

	1 January - 30 September 2018	1 July - 30 September 2018	1 January - 30 September 2017	1 July - 30 September 2017
Commercial vehicles	575,666	243,237	438,742	171,871
Armored vehicles	59,736	20,048	706,592	171,547
Accrued earnings related to construction contracts	23,896	-	79,877	15,499
Other sales (*)	149,338	57,192	144,308	49,374
	808,636	320,477	1,369,519	408,291

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

Cost of sales

	1 January - 30 September 2018	1 July - 30 September 2018	1 January - 30 September 2017	1 July - 30 September 2017
Cost of finished goods sold	(530,753)	(188,601)	(970,944)	(272,640)
Cost of merchandise goods sold	(71,697)	(27,878)	(70,769)	(26,111)
Cost of sales	(602,450)	(216,479)	(1,041,713)	(298,751)

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

	1 January - 30 September 2018	1 July - 30 September 2018	1 January - 30 September 2017	1 July - 30 September 2017
Sales and marketing expenses	(163,652)	(60,508)	(155,757)	(47,946)
General administrative expenses	(56,360)	(16,996)	(47,382)	(12,402)
Research and development expenses	(36,557)	(12,104)	(32,425)	(10,436)
	(256,569)	(89,608)	(235,564)	(70,784)

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NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS AT 30 SEPTEMBER 2018

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NOT 17 - EXPENSES BY NATURE

	1 January - 30 September 2018	1 July - 30 September 2018	1 January - 30 September 2017	1 July - 30 September 2017
Other operating income				
Foreign exchange gains on operating activities	1,608,439	1,066,423	142,112	39,562
Gain on forward transactions	27,521	11,682	26,208	7,378
Revenue from charge of due date receivables	21,831	9,466	13,501	4,508
Incentives income	1,455	485	1,617	539
Other income	13,816	1,876	8,483	1,235
	1,673,062	1,089,932	191,921	53,222

	1 January - 30 September 2018	1 July - 30 September 2018	1 January - 30 September 2017	1 July - 30 September 2017
Other operating expenses				
Foreign exchange loss on operating activities	(1,584,008)	(1,042,708)	(118,447)	(25,593)
Loss on forward transactions	(20,888)	(9,458)	(19,639)	(6,733)
Expense on provision for uncollectible receivables	(14,511)	(9,778)	(2,905)	(1,080)
Expected credit losses on trade receivables	(340)	(1)		
Other	-	-	(232)	-
	(1,619,747)	(1,061,945)	(141,223)	(33,406)

NOTE 18 - FINANCIAL INCOME

	1 January - 30 September 2018	1 July - 30 September 2018	1 January - 30 September 2017	1 July - 30 September 2017
Foreign exchange gains on deposits	20,599	11,082	8,071	1,481
Interest income from time deposits	2,442	567	621	108
Foreign exchange gains on bank borrowings	3,239	3,239	-	-
	26,280	14,888	8,692	1,589

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NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS AT 30 SEPTEMBER 2018

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

NOTE 19 - FINANCIAL EXPENSES

	1 January - 30 September 2018	1 July - 30 September 2018	1 January - 30 September 2017	1 July - 30 September 2017
Interest expense on bank borrowings	(84,806)	(38,211)	(75,593)	(26,038)
Foreign exchange losses on bank borrowings	(29,236)	(23,298)	(20,099)	(10,206)
Foreign exchange losses on deposits	(10,184)	(4,933)	(6,268)	(1,170)
Other	(242)	(60)	(149)	(83)
Total	(124,468)	(66,502)	(102,109)	(37,497)

NOTE 20 - TAX ASSETS AND LIABILITIES

In Turkey, the corporation tax rate is 22% (31 December 2017 - 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 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 2018 and 31 December 2017, income tax payables are presented net of prepaid taxes in the balance sheet as follows:

	30 September 2018	31 December 2017
Income tax payable	957	1,277
Prepaid taxes (-)	(957)	(1,277)
Deferred tax assets, net	-	-

The breakdown of total tax expense for the years ended 30 September 2018 and 2017 are as follows:

	1 January - 30 September 2018	1 January - 30 September 2017
Current tax charge	(2,393)	-
Deferred tax income / expense reflected in profit or loss	-	-
Charged to profit for the period	11,564	-
Charged to other comprehensive income/expense	146	-
	9,317	-

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS AT 30 SEPTEMBER 2018

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NOTE 20 - TAX ASSETS AND LIABILITIES (Continued)

As of 30 September 2018 and 31 December 2017, 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)	
	30 September 2018	31 December 2017	30 September 2018	31 December 2017
Incentives from R&D activities (*)	142,024	123,033	31,245	27,067
Property, plant and equipment	(15,172)	(7,723)	447	1,937
Intangible assets	(45,951)	(53,814)	(9,190)	(10,763)
Deferred financial expenses/ income, net	(913)	591	(201)	130
Inventories	577	996	124	213
Warranty provision	50,820	53,065	10,811	11,260
Provision for employment termination benefits	37,166	31,693	7,433	6,339
Provisions for doubtful receivables	2,889	2,746	636	-
Provisions for unused vacation liability	10,541	9,286	2,319	-
Other provisions	17,876	23,052	3,575	4,851
Deferred maintenance income	-	9,437	-	2,076
Due from customers on contract works	51,263	9,732	11,278	2,141
Other	13	25,566	(161)	1,355
Deferred tax assets, net			58,316	46,606

(*) 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 2018, the tax advantage of TRY142,024 (31 December 2017: TRY123,033), 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 TRY133,194 for aforementioned years is still going on.

The movement of deferred tax asset for the years ended 30 September 2018 and 2017 are as follows:

	1 January - 30 September 2018	1 January - 30 September 2017
1 January	46,606	37,853
Deferred tax income/ expense		
- Charged to profit for the period	11,564	-
- Charged to other comprehensive income (expense)	146	-
30 September	58,316	37,853

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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.

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 2018	30 September 2017
Net period (loss) / profit	(85,906)	50,769
Weighted average number of issued shares	24,000,000,000	24,000,000,000
Earnings /(loss) per share (Piastre)	(0.358)	0,212

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 as of 30 September 2018 and 31 December 2017:

Due from related parties	30 September 2018	31 December 2017
Ram Dış Ticaret A.Ş. (1) (*)	125,253	28,958
Ford Otosan A.Ş. (1), (2)	427	698
Otokoç Otomotiv Tic. ve San. A.Ş. (1)	53	-
Türk Traktör ve Ziraat Makineleri A.Ş. (1)	27	-
Opet Fuchs Madeni Yağ A.Ş. (1)	7	-
	125,767	29,656

(*) 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.

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NOTE 22 - RELATED PARTY DISCLOSURES (Continued)

Due to related parties	30 September	
	2018	31 December 2017
Ram Dış Ticaret A.Ş. (1)	2,183	2,996
Zer Merkezi Hizmetler A.Ş. (1)	2,056	2,974
Setur Servis Turistik A.Ş. (1)	994	618
Koç Holding A.Ş. (2)	347	5,353
Other (1)	772	2,153
	6,352	14,094

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

Advances received from related parties	30 September		31 December	
	2018		2017	
Subsidiary of Otokar Land Systems LLC (Note 14)	642,412		404,513	
	642,412		404,513	

Deferred revenue from related parties	30 September		31 December	
	2018		2017	
Otokar Land Systems LLC (Note 14)	27,992		28,040	
	27,992		28,040	

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

Product sales and service revenue	1 January -	1 July -	1 January -	1 July -
	30 September	30 September	30 September	30 September
	2018	2018	2017	2017
Ram Dış Ticaret A.Ş. (1) (*)	117,312	85,664	124,677	28,707
RMK Müzecilik ve Kültür Vakfı (1)	135	-	-	-
Otokoç Otomotiv Tic. ve San. A.Ş. (1)	49	2	50	50
Other (1)	10	10	84	-
	117,506	85,676	124,811	28,757

(*) 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.

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS AT 30 SEPTEMBER 2018

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NOTE 22 - RELATED PARTY DISCLOSURES (Continued)

Purchase of property, plant and equipment	1 January - 30 September 2018	1 July - 30 September 2018	1 January - 30 September 2017	1 July - 30 September 2017
KoçSistem Bilgi ve İletişim Hizm. A.Ş. (1)	1,313	309	1,819	583
Zer Merkezi Hizmetler A.Ş. (1)	67	40	323	313
Other (1)	10	2	330	10
	1,390	351	2,472	906

Inventories purchased	1 January - 30 September 2018	1 July - 30 September 2018	1 January - 30 September 2017	1 July - 30 September 2017
Zer Merkezi Hizmetler A.Ş. (1)	24,768	11,132	17,311	7,369
Ram Dış Ticaret A.Ş. (1)	5,392	2,089	3,577	1,297
Opet Petrolcülük A.Ş. (1)	2,919	947	2,331	816
Opet Fuchs Madeni Yağ A.Ş. (1)	1,938	666	1,577	467
Akpa Dayanıklı Tük. Paz. A.Ş. (1)	1,644	607	1,717	580
Other (1)	199	125	3,428	267
	36,860	15,566	29,941	10,796

(1) Related parties of the parent company

Services purchased	1 January - 30 September 2018	1 July - 30 September 2018	1 January - 30 September 2017	1 July - 30 September 2017
Ram Dış Ticaret A.Ş. (1)	10,381	1,383	9,156	721
Setur Servis Turistik A.Ş. (1)	6,716	2,773	5,357	2,263
KoçSistem Bilgi ve İletişim Hizm. A.Ş. (1)	6,206	534	2,630	845
Ram Sigorta Aracılık Hz. A.Ş. (1) (**)	4,475	538	3,098	93
Otokoç Otomotiv Tic. ve San. A.Ş. (1)	4,377	2,037	2,746	986
Koç Holding A.Ş. (2) (*)	2,533	873	2,660	819
Eltak Elektrik Enerji İth. İhr. Top. Tic. A.Ş. (1)	1,132	-	3,134	1,061
Other (1)	2,121	1,330	1,590	467
	37,941	9,468	30,371	7,255

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

(**) It includes paid and accrued premium as of 30 September 2018 and 2017 in accordance with insurance policies signed between insurance companies via Ram Sigorta Aracılık Hizmetleri A.Ş. which is an insurance agency.

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

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NOTE 22 - RELATED PARTY DISCLOSURES (Continued)

Banks deposits	30 September 2018	31 December 2017
Yapı ve Kredi Bankası A.Ş. (1)		
- Time deposits	3,658	1,821
- Deposit deposits	5	3
	3,663	1,824
Checks and notes in collection	30 September 2018	31 December 2017
Yapı ve Kredi Bankası A.Ş. (1)	3,088	4,119
	3,088	4,119
Loans	30 September 2018	31 December 2017
Yapı ve Kredi Bankası A.Ş. (1)	300	-
	300	-

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

For the years ended 30 September 2018 and 2017, financial income and expense with related parties:

	1 January - 30 September 2018	1 July - 30 September 2018	1 January - 30 September 2017	1 July - 30 September 2017
Foreign exchange gains				
Ram Dış Ticaret A.Ş. (1)	28,304	15,937	11,317	4,208
Zer Merkezi Hizmetler A.Ş. (1)	14	8	43	10
Koç Sistem Bilgi ve İletişim Hizm. A.Ş. (1)	-	-	7	7
	28,318	15,945	11,367	4,225
	1 January - 30 September 2018	1 July - 30 September 2018	1 January - 30 September 2017	1 July - 30 September 2017
Foreign exchange loss				
Ram Dış Ticaret A.Ş. (1)	1,918	1,481	3,385	-
Zer Merkezi Hizmetler A.Ş. (1)	874	594	158	71
Koç Sistem Bilgi ve İletişim Hizm. A.Ş. (1)	48	23	-	-
Yapı Kredi Faktoring (1)	-	-	12,678	-
	2,840	2,098	16,221	71

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS AT 30 SEPTEMBER 2018

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NOTE 22 - RELATED PARTY DISCLOSURES (Continued)

For the years ended 30 September 2018 and 2017, financial income and expense with related parties:

	1 January - 30 September 2018	1 July - 30 September 2018	1 January - 30 September 2017	1 July - 30 September 2017
Interest income				
Yapı ve Kredi Bankası A.Ş. (1)	424	413	105	3
	424	413	105	3

	1 January - 30 September 2018	1 July - 30 September 2018	1 January - 30 September 2017	1 July - 30 September 2017
Interest expense				
Yapı ve Kredi Bankası A.Ş. (1)	213	163	618	282
	213	163	618	282

(1) Related parties of the parent company

For the years ended 30 September 2018 and 2017, financial income and expense with related parties:

	1 January - 30 September 2018	1 July - 30 September 2018	1 January - 30 September 2017	1 July - 30 September 2017
Exchange difference income				
Yapı ve Kredi Bankası A.Ş. (1)	3,049	2,076	4,683	1,001
	3,049	2,076	4,683	1,001

	1 January - 30 September 2018	1 July - 30 September 2018	1 January - 30 September 2017	1 July - 30 September 2017
Exchange difference expense				
Yapı ve Kredi Bankası A.Ş. (1)	5,799	3,103	3,907	765
	5,799	3,103	3,907	765

(1) Related parties of the parent company

Benefits to key management

Salaries and similar benefits provided to the executive management by the Company for the period ended 30 September 2018 is amounted to TRY5,744 (31 December 2017: TRY5,356). Executives are composed of board of directors members, general manager and assistants of general manager.

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS AT 30 SEPTEMBER 2018

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

NOT 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.

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

30 September 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 (30 September 2018)	364,190	7,401	57,146	27
24. Import (30 September 2018)	411,378	40,349	39,346	954

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

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NOT 23 - NATURE AND LEVEL OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (Continued)

31 December 2017	TRY equivalent (functional currency)	USD	EUR	GBP
1. Trade receivables	589,040	90,131	55,035	111
2a. Monetary financial assets (including cash, bank accounts)	401,125	105,321	856	-
2b. Non-monetary financial assets	-	-	-	-
3. Other	8	2	-	-
4. Current assets (1+2+3)	990,173	195,454	55,891	111
5. Trade receivables	3,847	-	852	-
6a. Monetary financial assets	-	-	-	-
6b. Non-monetary financial assets	-	-	-	-
7. Other	103	7	17	-
8. Non-current assets (5+6+7)	3,950	7	869	-
9. Total assets(4+8)	994,123	195,461	56,760	111
10. Trade payables	(8,423)	(126)	(1,759)	(1)
11. Financial liabilities	-	-	-	-
12a. Monetary other liabilities	(310,684)	(82,122)	(174)	(28)
12b. Non-monetary other liabilities	(9,487)	-	(2,101)	-
13. Current liabilities (10+11+12)	(328,594)	(82,248)	(4,034)	(29)
14. Trade payables	-	-	-	-
15. Financial liabilities	-	-	-	-
16a. Monetary other liabilities	(404,513)	(107,244)	-	-
16b. Non-monetary other liabilities	-	-	-	-
17. Non-current liabilities (14+15+16)	(404,513)	(107,244)	-	-
18. Total liabilities (13+17)	(733,107)	(189,492)	(4,034)	(29)
Net balance sheet position (9+18)	261,016	5,969	52,726	82
19. Net asset/(liability) position of off-balance sheet derivative instruments(19a-19b)	(259,323)	(6,500)	(52,000)	-
19a. Hedged total assets amount	-	-	-	-
19b. Hedged total liabilities amount	(259,323)	(6,500)	(52,000)	-
20. Net foreign currency asset/(liability) position (9+18+19)	1,693	(531)	726	82
21. Net foreign currency asset/(liability) position of monetary items (=1+2a+5+6a-10-11-12a-14-15-16a)	270,393	5,960	54,810	82
22. Total fair value of financial instruments used for foreign currency hedging	(1,325)	(72)	(1,253)	-
23. Export (30 September 2018)	339,042	34,695	53,329	30
24. Import (30 September 2018)	366,118	44,809	49,830	1,527

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS AT 30 SEPTEMBER 2018

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NOT 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 30 September 2018 and 31 December 2017:

	<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>
30 September 2018		
<i>In case 10% appreciation of USD against TRY</i>		
1- USD net asset/liability	(65)	65
2- Amount hedged for USD risk (-)	-	-
3- USD net effect (1+2)	(65)	65
<i>In case 10% appreciation of EUR against TRY</i>		
4- EUR net asset/liability	(204)	204
5- Amount hedged for EUR risk (-)	-	-
6- EUR net effect (4+5)	(204)	204
<i>In case 10% appreciation of GBP against TRY</i>		
7- GBP net asset/liability	(35)	35
8- Amount hedged for GBP risk (-)	-	-
9- GBP net effect (7+8)	(35)	35
Total (3+6+9)	(304)	304
31 December 2017		
<i>In case 10% appreciation of USD against TRY</i>		
1- USD net asset/liability	(200)	200
2- Amount hedged for USD risk (-)	-	-
3- USD net effect (1+2)	(200)	200
<i>In case 10% appreciation of EUR against TRY</i>		
4- EUR net asset/liability	328	(328)
5- Amount hedged for EUR risk (-)	-	-
6- EUR net effect (4+5)	328	(328)
<i>In case 10% appreciation of GBP against TRY</i>		
7- GBP net asset/liability	42	(42)
8- Amount hedged for GBP risk (-)	-	-
9- GBP net effect (7+8)	42	(42)
Total (3+6+9)	170	(170)

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS AT 30 SEPTEMBER 2018

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

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 30 September 2018 and 31 December 2017:

30 September 2018

Assets	Level 1	Level 2	Level 3	Total
Derivative financial instruments	-	5,009	-	5,009
	-	5,009	-	5,009

31 December 2017

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

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 CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
AT 30 SEPTEMBER 2018**

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

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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