

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

**CONVENIENCE TRANSLATION INTO ENGLISH OF CONSOLIDATED
CONDENSED INTERIM FINANCIAL STATEMENTS AT 31 MARCH 2016**

(ORIGINALLY ISSUED IN TURKISH)

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY - 31 MARCH 2016

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OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

CONSOLIDATED CONDENSED INTERIM BALANCE SHEET AS OF 31 MARCH 2016

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

	Notes	(Not audited) 31 March 2016	(Audited) 31 December 2015
ASSETS			
Current assets			
Cash and cash equivalents	4	24.852.259	58.736.065
Trade receivables	7	318.935.637	344.453.922
<i>Due from related parties</i>	21	44.717.826	106.906.185
<i>Due from other parties</i>	7	274.217.811	237.547.737
Other receivables, third parties		200.205	2.090
Due from customers on contract works	9	189.958.239	-
Inventories	8	414.213.043	427.975.544
Derivative financial instruments	6	-	146.636
Prepaid expenses	13	131.895.638	122.691.548
Other current assets	13	74.691.304	65.687.162
Total current assets		1.154.746.325	1.019.692.967
Non-current assets			
Trade receivables, third parties	7	81.549.448	100.295.845
Other receivables, third parties		173.463	65.853
Due from customers on contract works	9	-	188.278.141
Financial investments		-	239.280
Property, plant and equipment	10	102.596.519	103.757.339
Intangible assets	11	157.371.178	155.419.078
Deferred tax assets	19	35.001.345	37.313.671
Total non-current assets		376.691.953	585.369.207
Total assets		1.531.438.278	1.605.062.174

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

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

CONSOLIDATED CONDENSED INTERIM BALANCE SHEET AS OF 31 MARCH 2016

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

	Notes	(Not audited) 31 March 2016	(Audited) 31 December 2015
LIABILITIES			
Current liabilities			
Short - term borrowings	5	34.038.450	375.402
Short - term portion of long - term borrowings	5	54.632.851	105.607.359
Derivative instruments	6	48.713	-
Trade payables	7	113.014.375	165.819.465
<i>Due to related parties</i>	21	6.423.864	27.169.350
<i>Due to others</i>	7	106.590.511	138.650.115
Employee benefit obligations	13	5.331.028	18.137.584
Other payables, third parties		39.134.341	36.228.439
Current year income tax liabilities	19	-	2.093.694
Deferred income	13	148.855.126	176.292.725
Government grants		2.054.270	2.056.306
Short - term provisions	12	306.987.182	276.300.155
<i>Provisions for employee benefits</i>		7.924.015	6.651.542
<i>Other provisions</i>		299.063.167	269.648.613
Other current liabilities	13	73.044.825	1.978.569
Total current liabilities		777.141.161	784.889.698
Non-current liabilities			
Borrowings	5	509.235.895	509.295.075
Government grants		5.096.865	5.570.470
Long-term provisions	12	35.240.886	31.755.416
<i>Provision for employee benefits</i>		24.121.533	22.321.490
<i>Other provisions</i>		11.119.353	9.433.926
Deferred income	13	23.074.259	28.312.416
Total non-current liabilities		572.647.905	574.933.377
EQUITY			
Paid-in share capital		24.000.000	24.000.000
Inflation adjustment on share capital		52.743.030	52.743.030
Restricted reserves		46.934.610	46.838.147
Accumulated other comprehensive income and expense that will not be classified to statement of profit or loss		(4.039.868)	(3.859.283)
Currency translation differences		(53.220)	-
Retained earnings		53.897.918	46.011.054
Net income for the year		8.166.742	79.506.151
Total Equity		181.649.212	245.239.099
Total Liabilities and Equity		1.531.438.278	1.605.062.174

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

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 1 JANUARY - 31 MARCH 2016

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

	Notes	(Not audited) 1 January – 31 March 2016	(Audited) 1 January – 31 March 2015
Net Sales	14	358.832.204	248.757.898
Cost of sales (-)	14	(267.027.010)	(191.139.140)
Gross profit		91.805.194	57.618.758
Marketing expenses (-)	15	(45.890.143)	(34.515.627)
General administrative expenses (-)	15	(15.005.724)	(12.133.210)
Research and development expenses (-)	15	(9.448.029)	(8.156.900)
Other operating income	16	60.311.513	22.507.251
Other operating expenses (-)	16	(54.883.272)	(26.758.106)
Operating profit		26.889.539	(1.437.834)
Income from investing activities		7.756	1.425.113
Expense from investing activities (-)		-	-
Operating income before financial expenses		26.897.295	(12.721)
Financial income	17	1.873.854	2.044.935
Financial expense (-)	18	(19.053.764)	(7.259.240)
Income before tax		9.717.385	(5.227.026)
Tax income/expense from continued operations			
- Current tax expense (-)	19	806.829	(1.390.799)
- Deferred tax expense (-)	19	(2.357.472)	4.396.960
Profit for the period		8.166.742	(2.220.865)
Remeasurement gains / (losses) on defined benefit plans		(225.731)	(935.819)
Deferred tax effect on remeasurement differences		45.146	187.164
Currency translation differences		16.552	-
Other comprehensive expense		(164.033)	(748.655)
Total comprehensive income/(expense)		8.002.709	(2.969.520)
Earnings per share (Kuruş)	20	0,034	(0,009)

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

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 1 JANUARY – 31 MARCH 2016

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

	Paid in share capital	Inflation adjustments on share capital	Restricted reserves	Accumulated other comprehensive expense that will not 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			
1 January 2015	24.000.000	52.743.030	38.958.147	(5.264.855)	-	61.119.856	72.771.198	244.327.376
Transfers	-	-	7.880.000	-	-	64.891.198	(72.771.198)	-
Dividends paid	-	-	-	-	-	(80.000.000)	-	(80.000.000)
Total comprehensive income	-	-	-	(748.655)	-	-	(2.220.865)	(2.969.520)
31 March 2015	24.000.000	52.743.030	46.838.147	(6.013.510)	-	46.011.054	(2.220.865)	161.357.856
1 January 2016	24.000.000	52.743.030	46.838.147	(3.859.283)	-	46.011.054	79.506.151	245.239.099
Subsidiary under consolidation (Not 1)	-	-	96.463	-	(69.772)	380.713	-	407.404
1 January 2016 restated	24.000.000	52.743.030	46.934.610	(3.859.283)	(69.772)	46.391.767	79.506.151	245.646.503
Transfers	-	-	-	-	-	79.506.151	(79.506.151)	-
Dividends paid	-	-	-	-	-	(72.000.000)	-	(72.000.000)
Total comprehensive income	-	-	-	(180.585)	16.552	-	8.166.742	8.002.709
31 March 2016	24.000.000	52.743.030	46.934.610	(4.039.868)	(53.220)	53.897.918	8.166.742	181.649.212

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

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE INTERIM PERIOD 1 JANUARY – 31 MARCH 2016

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

	Notes	(Not audited) 1 January – 31 March 2016	(Audited) 1 January – 31 March 2015
Cash flows from operating activities			
Income before taxes		9.717.385	(5.227.026)
Adjustments to reconcile income before taxes to net cash flows from operating activities:			
Depreciation and amortization	10, 11	12.652.794	12.626.649
Provision for employment termination benefits	12	2.819.611	1.957.700
Provision for inventories	8	(42.286)	-
Warranty provision expenses	12	9.106.646	9.843.110
Gain on sale of property, plant and equipments		(7.756)	(1.425.113)
Interest expense on borrowings	18	15.304.693	6.053.467
Unrealised foreign exchange losses on borrowings		1.304.000	414.350
Interest income on time deposits	17	(220.258)	(226.237)
Provision for doubtful receivables	7	206.296	700.113
Financial derivative transactions, net		(197.391)	(10.029.463)
Cash flows before changes in net working capital		50.643.734	14.687.550
Trade and other receivables		33.551.713	47.780.386
Due from customers on contract works		(1.680.098)	(22.208.657)
Inventories		22.701.960	(40.744.106)
Other current assets		(15.661.447)	(9.857.757)
Trade payables		(55.533.365)	20.178.723
Other liabilities		(15.149.084)	18.182.579
Realized gains on derivative contracts		392.740	10.674.418
Income taxes paid		(1.286.865)	(5.852.194)
Warranties paid	12	(8.038.445)	(7.787.248)
Employee termination benefits paid	12	(1.245.298)	(1.651.267)
Cash flows from operating activities		8.695.545	23.402.427
Investing activities			
Purchase of property, plant and equipment	10	(1.660.414)	(921.950)
Purchase of intangible assets	11	(11.581.871)	(11.532.769)
Proceeds from sale of property, plant and equipment		181.756	2.378.762
Net cash used in investing activities		(13.060.529)	(10.075.957)
Financing activities			
Proceeds from bank borrowings		117.920.536	98.503.745
Repayments of bank borrowings		(154.223.836)	(143.100.348)
Interest paid		2.323.967	509.101
Interest received		220.258	226.237
Net cash provided by/(used in) financing activities		(33.759.075)	(43.861.265)
Impact of currency translation differences on cash and cash equivalents			
		16.552	-
Increase in cash and cash equivalents		(38.107.507)	(30.534.795)
Cash and cash equivalents at the beginning of the year	4	62.959.766	44.527.697
Cash and cash equivalents at the end of the period	4	24.852.259	13.992.902

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

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS AT 31 MARCH 2016

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

NOTE 1 - GROUP’S ORGANIZATION AND NATURE OF OPERATIONS

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

The Company operates in the automotive industry and off road vehicles, armored vehicles, minibuses, midibuses and autobuses, trailers, semi-trailers, light truck and cross-country comprises the majority of its production. The number of the personnel in the Company is 2.635 (31 December 2014: 2.054).

The registered addresses of the Company are as follows:

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

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

Information related to the subsidiary subjected to the scope of consolidation is as follows:

Subsidiary	Nature of business	Country	Capital	Subsidiary (%)
Otokar Europe SAS	Sales and marketing	France	100.000 Euro (239.280 TL)	100,00

Otokar Europe SAS had not subjected to consolidation scope at the previous reporting terms due to immaterial operating activities and it had been accounted under “Financial Investments. However, beginning from current year Otokar Europe SAS is subjected to consolidation scope due to that operating activities became material. Company’s financial statement has been prepared consolidated level for the interim period 31 March 2016.

Henceforth, Otokar and consolidated subsidiary will be named as “Group”.

Number of the employees working at the Group as of 31 March 2016 is 2.105 (31 December 2015:2.105)

Financial statements for the year ended 31 March 2016 were authorized for issue and signed by the Board of Directors of the Company on 29 April 2016 with the approval of the Internal Audit Committee. The accompanying financial statements could be amended by the Board of Directors.

The Company is registered to the Capital Market Board (“CMB”) and its shares are listed on the Borsa Istanbul (“BIST”), previously name as Istanbul Stock Exchange (“ISE”) since 1995. As of 31 March 2016, 27.32% of total shares are listed at BIST.

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

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

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

The Group is controlled by Koç Holding A.Ş.

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.

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS AT 31 MARCH 2016

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

NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

2.1 Basis of Presentation

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

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

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

Functional and presentation currency

Functional and presentation currency of the Group is 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 2014, 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 2016 and 31 December 2015 have been restated by applying the relevant conversion factors through 31 December 2015 and 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.

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.

**NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS
AT 31 MARCH 2016**

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

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

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.

Amendment to IAS 19 regarding defined benefit plans, effective from annual periods beginning on or after 1 July 2014. These narrow scope amendments apply to contributions from employees or third parties to defined benefit plans. The objective of the amendments is to simplify the accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary.

Annual improvements 2012; effective from annual periods beginning on or after 1 July 2014. These amendments include changes from the 2010-12 cycle of the annual improvements project, that affect 7 standards:

IFRS 2, ‘Share-based payment’

IFRS 3, ‘Business Combinations’

IFRS 8, ‘Operating segments’

IFRS 13, ‘Fair value measurement’

IAS 16, ‘Property, plant and equipment’ and IAS 38, ‘Intangible assets’

Consequential amendments to IFRS 9, ‘Financial instruments’, IAS 37, ‘Provisions, contingent liabilities and contingent assets’, and

IAS 39, Financial instruments – Recognition and measurement’

Annual improvements 2013; effective from annual periods beginning on or after 1 July 2014. These amendments include changes from the 2011-12-13 cycle of the annual improvements project, that affect 4 standards:

IFRS 1, ‘First time adoption’

IFRS 3, ‘Business combinations’

IFRS 13, ‘Fair value measurement’ and

IAS 40, ‘Investment property’.

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS
AT 31 MARCH 2016

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

NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

a) Standards, amendments and interpretations applicable as at 31 March 2016

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.

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 the 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.

IFRS 14 'Regulatory deferral accounts', effective from annual periods beginning on or after 1 January 2016. IFRS 14, 'Regulatory deferral accounts' permits first-time adopters to continue to recognise amounts related to rate regulation in accordance with their previous GAAP requirements when they adopt IFRS. However, to enhance comparability with entities that already apply IFRS and do not recognise such amounts, the standard requires that the effect of rate regulation must be presented separately from other items.

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.

Amendments 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 address an inconsistency between the requirements in IFRS 10 and those in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary.

**NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS
AT 31 MARCH 2016**

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

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

a) Standards, amendments and interpretations applicable as at 31 March 2016

Annual improvements 2014, effective from annual periods beginning on or after 1 January 2016. These set of amendments impacts 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 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

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.

b) Standards, amendments and interpretations effective after 31 March 2016:

IAS 7 ‘effective from annual periods beginning on or after 1 January 2017. The improvements are part of the Board’s Disclosure Initiative. The amendments require companies to provide information about changes in their financing liabilities and come as a response to requests from investors for information that helps them better understand changes in a company’s debt. The amendments will help to evaluate changes in liabilities arising from financing activities, including changes from cash flows and non-cash changes (such as foreign exchange gains or losses).

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 clarify certain other aspects of accounting for deferred tax assets.

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.

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.

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS AT 31 MARCH 2016

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

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

b) *Standards, amendments and interpretations effective after 31 March 2016:*

IFRS 16 ‘leases’ effective from annual periods beginning on or after 1 January 2019, with earlier application permitted if IFRS 15, ‘Revenue from Contracts with Customers’, is also applied. New standard 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.

NOTE 3 - SEGMENT REPORTING

Since the Group does not have different geographical and operational units, the Group does not make segment reporting and follows financial statements by one segment.

Since the Chief Executive Decision Maker 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 2016	31 December 2015
Cash at banks		
- Demand deposits	6.060.871	15.239
- Time deposits	17.519.314	56.506.362
Cheques and notes receivable	1.214.203	2.119.198
Other	57.871	95.266
Total	24.852.259	58.736.065

As of 31 March 2016, TL6.857.314 of time deposits are denominated in foreign currencies and their annual effective interest rate is 1,15% and has a maturity of 1 day. Annual effective interest rate of the remaining time deposits which amount to TL10.662.000 is 10,75% and has a maturity of 1 day.

(As of 31 December 2015, TL27.326.362 of time deposits are denominated in foreign currencies and their annual effective interest rate is 0,24% and has a maturity of 4 days. Annual effective interest rate of the remaining time deposits which amount to TL29.180.000 is 14,05% and has a maturity of 4 days.)

Cheques and notes receivable consist of cheques and notes which are due as of balance sheet date and are sent to banks for collections.

As of 31 March 2016, the Group has restricted bank deposits amounting to TL795 (31 December 2015: TL795).

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS AT 31 MARCH 2016

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

NOTE 5 - FINANCIAL LIABILITIES

			31 March 2016
	Maturities	Interest rate (%)	TL
Short-term bank borrowings (*)			
Denominated in TL (***)	1 April 2016	0,00	3.828.036
Denominated in USD	1 April 2016	2,60	14.166.972
Denominated in EUR	17 February 2017	2,65	16.043.442
Total			34.038.450

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

Denominated in TL	8,09-15,70	54.614.133
Denominated in EUR	2,65	18.718
Total		54.632.851

			31 March 2016
	Maturities	Interest rate (%)	TL
Long-term bank borrowings (*) (**)			
Denominated in TL	6 April 2017- 3 September 2018	11,55-15,70	412.790.512
Denominated in EUR	3 July 2017- 21 September 2017	2,65-2,90	96.445.383
Toplam			509.235.895

(*) Bearing fixed interest rate

(**) Weighted average maturity days of long-term borrowings are 581.

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

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NOTE 5 - FINANCIAL LIABILITIES (Continued)

	31 December 2015		
	Maturities	Interest rate (%)	TL
Short-term bank borrowings (*)			
Denominated in TL (***)	4 January 2016	0,00	375.402
Denominated in EUR			-
Total			375.402

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

Denominated in TL	8,09-14,65	105.178.069
Denominated in EUR	2,65	429.290
Total		105.607.359

	31 December 2015		
	Maturities	Interest rate (%)	TL
Long-term bank borrowings (*) (**)			
Denominated in TL	14 April 2017- 3 September 2018	11,55-14,65	351.115.051
Denominated in EUR	10 February 2017- 21 September 2017	2,65-2,90	158.180.024
Total			509.295.075

(*) Bearing fixed interest rate

(**) Weighted average maturity days of long-term borrowings are 661.

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

As of 31 March 2016, the Group has not provided any guarantees for the borrowings (31 December 2015: None).

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NOTE 6 - 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 2016:			
Forward transactions	22.505.413	14 Nisan 2016	(48.713)
Short-term derivative financial instruments	22.505.413		(48.713)
Total derivative financial instruments	22.505.413		(48.713)

	Contract amount	Current period Contract maturity	Fair value Assets
31 December 2015:			
Forward transactions	55.435.650	7 January 2016- 14 January 2016	146.636
Short-term derivative financial instruments	55.435.650		146.636
Total derivative financial instruments	55.435.650		146.636

NOTE 7 - TRADE RECEIVABLES AND PAYABLES

Trade receivables

	31 March 2016	31 December 2015
Trade receivables, net	156.887.436	113.905.306
Notes receivables, net	142.962.485	148.699.225
	299.849.921	262.604.531
Less: provision for doubtful receivables	(25.632.110)	(25.056.794)
Short term trade receivables	274.217.811	237.547.737
Trade receivables from related parties	44.717.826	106.906.185
Short-term trade receivables	318.935.637	344.453.922
Long-term trade receivables, net	74.049.516	87.065.478
Long-term notes receivable, net	7.499.932	13.230.367
Long-term trade receivables	81.549.448	100.295.845

As of 31 March 2016, expect for the notes receivable, average collection term for trade receivables is 60 - 90 days (31 December 2015: 60 - 90 days).

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS AT 31 MARCH 2016

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NOTE 7 - TRADE RECEIVABLES AND PAYABLES (Continued)

Guarantees received for trade receivables

Receivables of the Group are mainly composed of minibus and bus sales to dealers and trailer sales made in notes. As of 31 March 2016, the total trade receivable from dealers amounting to TL111.043.346 (31 December 2015: TL109.952.277 has been secured by mortgages and guarantees at the amount of TL109.786.330 (31 December 2015: TL108.683.872).

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

31 March 2016	Trade receivables
1-30 day past due	-
1-3 month past due	-
3-12 month past due	-
1-5 year past due	189.045
Over 5 year past due	-
Total	189.045

31 December 2015	Trade receivables
1-30 day past due	-
1-3 month past due	-
3-12 month past due	-
1-5 year past due	187.248
Over 5 year past due	-
Total	187.248

(1) Treyler a Pledges trailer vehicles.

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

The movement of the provision for doubtful receivables for the period ended March 31, 2015 and 2014 are as follows:

	1 January – 31 March 2016	1 January – 31 March 2015
1 January	25.972.886	22.526.772
Collections	(547.072)	(283.586)
Currency translation differences	8.793	-
Additional provisions	197.503	700.113
31 March	25.632.110	22.943.299

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NOTE 7 - TRADE RECEIVABLES AND PAYABLES (Continued)

Trade payables

	31 March 2016	31 December 2015
Trade payables, net	106.420.711	138.397.815
Notes payables, net	169.800	252.300
Short-term trade payables to third parties	106.590.511	138.650.115
Trade payables to related parties	6.423.864	27.169.350
Short-term trade payables	113.014.375	165.819.465

As of 31 March 2016, average payment term for trade payables is 45-60 days (31 December 2015: 45-60 days).

NOTE 8 - INVENTORIES

	31 March 2016	31 December 2015
Raw materials	165.189.004	127.778.773
Semi-finished goods	8.627.698	14.932.656
Finished goods	115.306.361	148.982.557
Merchandises	63.851.157	58.112.743
Goods in transit	61.991.901	78.964.178
Impairment for inventories (*)	(753.078)	(795.363)
Total	414.213.043	427.975.544

(*) TL180.494 of impairment is related to finished goods (31 December 2015: TL118.113) and TL572.584 is related to merchandises (31 December 2015: TL677.250). The impairment has been accounted for under cost of sales.

NOTE 9 - DUE FROM CUSTOMERS ON CONTRACT WORKS

Receivable from uncompleted contracts is TL189.958.239 as of 31 March 2016 (31 December 2015: TL188.278.141) after offsetting with short-term advances received.

As of 31 March 2016, the short-term advances received by the Group related with ongoing projects which amounts to TL41.653.607 was included under deferred revenues in the financial statements (31 December 2015: TL 79.705.827). The remainig TL85.161.872 which is included under deferred income is composed of other advances received from customers (31 December 2015: TL74.756.786) and other payables is amounting to TL22.039.647 (31 December 2015: TL21.830.112).

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS AT 31 MARCH 2016

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NOTE 10 - PROPERTY, PLANT AND EQUIPMENT

For the periods ended 31 March 2016 and 2015, the movement of property, plant and equipment and the accumulated depreciation are as follows:

	1 January 2016	Additions	Currency translation differences	Disposals	Transfers	31 March 2016
Cost:						
Land	37.456.746	-	-	-	-	37.456.746
Land and improvements	11.952.934	-	-	-	-	11.952.934
Buildings	60.539.783	-	-	-	-	60.539.783
Machinery and equipment	99.677.679	227.620	4.845	-	10.250	99.920.394
Motor vehicles	8.427.781	525.000	-	(142.640)	-	8.810.141
Furniture and fixtures	28.601.173	323.745	1.418	-	-	28.926.336
Leasehold improvements	2.099.062	3.814	-	(96.406)	-	2.006.470
Construction in progress	964.393	573.972	-	-	(10.250)	1.528.115
	249.719.551	1.654.151	6.263	(239.046)	-	251.140.919
Accumulated depreciation:						
Land and improvements	6.825.653	164.705	-	-	-	6.990.358
Buildings	34.712.739	708.237	-	-	-	35.420.976
Machinery and equipment	81.637.059	1.270.214	1.852	-	-	82.909.125
Motor vehicles	5.147.507	160.037	-	(10.566)	-	5.296.978
Furniture and fixtures	15.938.494	632.470	804	-	-	16.571.768
Leasehold improvements	1.324.974	84.701	-	(54.480)	-	1.355.195
	145.586.426	3.020.364	2.656	(65.046)	-	148.544.400
Net book value	104.133.125			(174.000)	-	102.596.519

	1 January 2015	Additions	Currency translation differences	Disposals	Transfers	31 March 2015
Cost:						
Land	37.456.746	-	-	-	-	37.456.746
Land and improvements	11.621.866	-	-	-	-	11.621.866
Buildings	60.170.668	-	-	-	-	60.170.668
Machinery and equipment	108.389.066	312.946	-	(6.405.949)	65.008	102.361.071
Motor vehicles	9.169.102	161.901	-	(228.500)	-	9.102.503
Furniture and fixtures	34.568.907	199.322	-	(1.980.423)	-	32.787.806
Leasehold improvements	2.841.765	18.975	-	-	-	2.860.740
Construction in progress	2.355.130	228.806	-	-	(65.008)	2.518.928
	266.573.250	921.950	-	(8.614.872)	-	258.880.328
Accumulated depreciation:						
Land and improvements	6.176.947	381.723	-	-	-	6.558.670
Buildings	31.891.231	704.502	-	-	-	32.595.733
Machinery and equipment	87.805.628	1.978.855	-	(6.405.949)	-	83.378.534
Motor vehicles	4.737.483	205.173	-	(80.398)	-	4.862.258
Furniture and fixtures	21.866.594	917.603	-	(1.980.423)	-	20.803.774
Leasehold improvements	1.835.312	94.960	-	-	-	1.930.272
	154.313.195	4.282.816	-	(8.466.770)	-	150.129.241
Net book value	112.260.055			(148.102)	-	108.751.087

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NOTE 10 - PROPERTY, PLANT AND EQUIPMENT (Continued)

For the periods ended 31 March 2016 and 2015, the allocation of depreciation and amortization expenses of property, plant and equipment and intangibles are as follows:

	31 March 2016	31 March 2015
Research and development expenses	9.143.297	7.839.293
Costs related to uncompleted contracts	780.095	2.068.309
Cost of goods sold	1.297.725	946.420
Development projects in process	468.601	499.220
Depreciation on outstanding inventories	198.426	580.391
General administrative expenses	444.520	392.846
Selling and marketing expenses	317.474	300.170
Currency translation differences	2.656	-
Total	12.652.794	12.626.649

NOTE 11 - INTANGIBLE ASSETS

For the periods ended 31 March 2016, the movement of intangible assets and the accumulated amortization is as follows:

	1 January 2016	Additions	Currency translation differences	Disposals	Transfers	31 March 2016
Cost:						
Other intangible assets	16.231.830	566.540	-	-	-	16.798.370
Development costs	242.619.897	-	-	-	-	242.619.897
Development projects in progress	31.224.033	11.015.333	-	-	-	42.239.366
	290.075.760	11.581.873	-	-	-	301.657.633
Accumulated amortization:						
Other intangible assets	11.973.214	486.477	-	-	-	12.459.691
Development costs	122.683.468	9.143.296	-	-	-	131.826.764
	134.656.682	9.629.773	-	-	-	144.286.455
Net book value	155.419.078					157.371.178

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NOTE 11 - INTANGIBLE ASSETS (Continued)

For the period ended March 31, 2015, the movement of intangibles and accumulated amortization is as follows:

	1 January 2015	Additions	Currency translation differences	Disposals	Transfers	31 March 2015
Cost:						
Other intangible assets	13.530.710	353.950	-	-	-	13.884.660
Development costs	186.078.994	-	-	(819.200)	-	185.259.794
Development projects in progress	40.525.892	11.178.819	-	-	-	51.704.711
	240.135.596	11.532.769	-	(819.200)	-	250.849.165
Accumulated amortization:						
Other intangible assets	10.221.496	504.540	-	-	-	10.726.036
Development costs	88.466.591	7.839.293	-	(13.653)	-	96.292.231
	98.688.087	8.343.833	-	(13.653)	-	107.018.267
Net book value	141.447.509					143.830.898

NOTE 12 - PROVISIONS, CONTINGENT ASSETS AND LIABILITIES

Short-term provisions

	31 March 2016	31 December 2015
Provision for other costs	257.625.519	233.120.100
Warranty provision	25.779.827	26.397.052
Short-term provisions for employee benefits		
Foundation employer's share of social security premium	7.924.015 2.925.000	6.651.542 2.925.000
Provision for license costs	241.975	1.316.079
Provision for legal cases	100.000	100.000
Other	12.390.846	5.790.382
Total	306.987.182	276.300.155

(*)Includes costs incurred by the Group related with 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.

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

Long-term provisions

	31 March 2016	31 December 2015
Warranty provision	11.119.353	9.433.926
Total	11.119.353	9.433.926

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 provision for other costs is as follows:

	1 January – 31 March 2016	1 January – 31 March 2015
1 January	35.830.979	22.615.088
Additional provisions	9.106.646	9.843.110
Paid during the period	(8.038.445)	(7.787.248)
31 March	36.899.180	24.670.950

Provisions for employee benefits

	31 March 2016	31 December 2015
Provision for employment termination benefits	24.121.533	22.321.490
Provision for unused vacation	7.924.015	6.651.542
Total	32.045.548	28.973.032

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

Employment termination benefits

The amount payable consists of one month’s salary limited to a maximum of TL 4.093 for each year of service as of March 31, 2016 (December 31, 2015 - TL 3.828).

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 2016	31 December 2015
Net discount rate (%)	4,60	4,60
Turnover rate to estimate the probability of retirement (%)	97,70	97,60

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:

	1 January – 31 March 2016	1 January – 31 March 2015
1 January	22.321.489	20.969.191
Interest expense	505.024	474.428
Charge for the period	2.314.587	1.483.272
Remeasurement losses	225.731	935.819
Payments	(1.245.298)	(1.651.267)
31 March	24.121.533	22.211.443

Provision for unused vacation

The movements of provision for unused vacation are as follows:

	1 January – 31 March 2016	1 January – 31 March 2015
1 January	6.651.542	5.381.838
Charge for the period net	1.272.473	1.423.281
31 March	7.924.015	6.805.119

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

Commitments and contingencies

As of 31 March 2016 and 31 December 2015, the tables which represent the position of guarantees, pledges and mortgages are as follows:

	31 March 2016	31 December 2015
a. Total amount of guarantees, pledges and mortgages given the name of legal entity	1.231.751.587	1.226.251.723
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	1.231.751.587	1.226.251.723

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

	31 March 2016		31 December 2015	
	Original currency	TL equivalent	Original currency	TL equivalent
USD	291.412.614	825.688.502	293.815.364	854.297.554
EUR	64.937.647	208.326.465	54.315.986	172.594.478
TL	197.736.620	197.736.620	199.359.691	199.359.691
Total		1.231.751.587		1.226.251.723

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

	31 March 2016	31 December 2015
Guarantee letters given		
Under secretariat of Ministry of Defense	705.075.247	751.262.190
Other(*)	526.676.340	474.989.533
Total	1.231.751.587	1.226.251.723

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

Guarantee letters

a) Guarantees given as of 31 March 2016 and 31 December 2015 are as follows::

	31 March 2016	31 December 2015
Bank letters of guarantee (*)	1.231.751.587	1.226.251.723
	1.231.751.587	1.226.251.723

(*) Bank letters of guarantee amounting to TL705.075.247 are given to Secretariat of Ministry of Defense for Altay Project (31 December 2015: TL723.539.489).

b) Guarantees received as of 31 March 2016 and 31 December 2015 are as follows:

	31 March 2016	31 December 2015
Bank letters of guarantee (**)	478.981.100	474.011.532
Guarantee notes	17.813.820	17.653.397
Mortgages received	560.000	582.000
Total	497.354.920	492.246.929

(**) Bank letters of guarantee amounting to TL228.870.344 are obtained from the sub-contractors for Altay Project (31 December 2015: TL236.503.977).

Contingent asset

The legal case related to tax deduction for the research and development activities in 2010 was concluded in favor of the Group and TL2.923.627 was refunded to the Group. The same case for 2011-2012-2013 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 and 2013 amount to TL36.168.636 TL.

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

a) Prepaid expenses:

	31 March 2016	31 December 2015
Advances given	125.213.776	119.060.514
Prepaid expenses	6.681.862	3.631.034
Total	131.895.638	122.691.548

b) Other current assets:

	31 March 2016	31 December 2015
Value added tax receivables	72.107.543	62.891.217
Other	2.583.761	2.795.945
Total	74.691.304	65.687.162

c) Deferred revenues:

Deferred revenues - short term	31 March 2016	31 December 2015
Deferred maintenance revenues (*)	22.039.647	21.830.112
Advances received	126.815.479	154.462.613
Total	148.855.126	176.292.725

Deferred revenues - long term	31 March 2016	31 December 2015
Deferred maintenance revenues (*)	23.074.259	28.312.416
Total	23.074.259	28.312.416

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

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

d) Employee benefits obligation:

	31 March 2016	31 December 2015
Payables to employees	2.922.833	9.776.832
Social security payables	1.597.134	4.060.123
Taxes and funds payable	811.061	4.300.629
Total	5.331.028	18.137.584

e) Other current liabilities:

	31 March 2016	31 December 2015
Due to related party (*)	72.000.000	-
Tax and fund payable	724.881	915.723
Deferred special consumption tax	312.074	638.813
Other	7.868	424.033
Total	73.044.823	1.978.569

(*)Dividends regarding to 2015 had been paid on 4 April 2016.

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NOTE 14 - SALES AND COST OF SALES

Net sales

	1 January - 31 March 2016	1 January - 31 March 2015
Domestic sales	245.174.064	194.294.857
Export sales	116.531.409	55.042.934
Gross sales	361.705.473	249.337.791
Less: sales discounts and returns	(2.873.269)	(579.893)
Net sales	358.832.204	248.757.898

Sales of the Group for the periods ended 1 January - 31 March 2016 and 2015 in terms of the products are as follows:

	1 January - 31 March 2016	1 January - 31 March 2015
Commercial vehicle	114.426.337	141.276.019
Armored vehicle	159.704.398	28.822.340
Other (*)	84.701.469	78.659.539
Total	358.832.204	248.757.898

(*) TL45.078.141 of this amount is related to revenues of uncompleted contracts (31 March 2015: TL43.055.548); the remaining balance amounting to TL39.623.328 is consisted of spare parts, maintenance & repairment and other revenues (31 March 2015: TL35.603.991).

Cost of sales

	1 January - 31 March 2016	1 January - 31 March 2015
Cost of finished goods sold	249.689.584	177.814.212
Cost of merchandise goods sold	17.337.426	13.324.928
Total	267.027.010	191.139.140

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

	1 January - 31 March 2016	1 January - 31 March 2015
Marketing expenses	(45.890.143)	(34.515.627)
General administrative expenses	(15.005.724)	(12.133.210)
Research and development expenses	(9.448.029)	(8.156.900)
Total	(70.343.896)	(54.805.737)

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NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS AT 31 MARCH 2016

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NOTE 16 - OTHER OPERATING INCOME/EXPENSE

	1 January - 31 March 2016	1 January - 31 March 2015
Other operating income		
Foreign exchange gain from trade receivable/ payables	52.124.234	2.152.330
Forward transaction income	2.608.813	15.912.072
Maturity difference income	2.615.291	2.186.093
Incentive income	514.077	508.461
Other	2.449.098	1.748.295
Total	60.311.513	22.507.251

	1 January - 31 March 2016	1 January - 31 March 2015
Other operating expense		
Foreign exchange loss from trade receivable/ payables	(52.274.347)	(20.126.585)
Forward transaction expenses	(2.411.422)	(5.882.610)
Provision for doubtful receivables	(197.503)	(700.113)
Other expenses	-	(48.798)
Total	(54.883.272)	(26.758.106)

NOTE 17 - FINANCIAL INCOME

	1 January – 31 March 2016	1 January – 31 March 2015
Interest income from time deposits	220.258	226.237
Foreign exchange gains on deposits	1.653.596	1.633.423
Foreign exchange gains on bank borrowings	-	185.275
Total	1.873.854	2.044.935

NOTE 18 - FINANCIAL EXPENSE

	1 January – 31 March 2016	1 January – 31 March 2015
Interest expense on bank borrowings	(15.304.693)	(6.053.467)
Foreign exchange losses on deposits	(2.416.016)	(1.012.273)
Foreign exchange losses on bank borrowings	(1.304.000)	(193.500)
Other	(29.055)	-
Total	(19.053.764)	(7.259.240)

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS AT 31 MARCH 2016

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NOTE 19 - TAX ASSETS AND LIABILITIES

In Turkey, the corporation tax rate is 20% (2014 - 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 2016 and 31 December 2015, income tax payables are presented net of prepaid taxes in the balance sheet as follows:

	31 March 2016	31 December 2015
Income tax payable	1.481.219	6.844.679
Less-prepaid tax	(1.481.219)	(4.750.985)
Total	-	2.093.694

The breakdown of total tax expense for the years ended 31 March 2016 and 2015 are as follows:

	31 March 2016	31 March 2015
Current tax charge	806.829	(1.390.799)
Tax charged to profit for the period	(2.357.472)	4.396.960
Tax charged to other comprehensive income/expense	45.146	187.164
Total	(1.505.497)	3.193.325

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NOTE 19 - TAX ASSETS AND LIABILITIES (Continued)

As of 31 March 2016 and 31 December 2015, 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 2016	31 December 2015	31 March 2016	31 December 2015
Property, plant and equipment	(10.261.831)	(10.992.437)	1.428.929	1.282.807
Intangible assets	(36.940.309)	(26.282.311)	(7.388.062)	(5.256.462)
Deferred financial expense	(567.285)	(900.574)	(113.457)	(180.115)
Inventories	698.713	805.990	139.743	161.198
Warranty provision	36.899.180	35.830.978	7.379.836	7.166.196
Provision for employment termination benefits	24.121.533	22.321.490	4.824.307	4.464.298
Deferred financial income	7.272.196	7.933.694	1.454.439	1.586.739
Other provisions	21.682.059	14.808.853	4.336.412	2.961.770
Deferred maintenance income	45.113.906	50.142.528	9.022.781	10.028.506
Due from customers on contract works	64.519.726	69.655.901	12.903.945	13.931.180
Other	5.062.360	5.837.770	1.012.472	1.167.554
Deferred tax asset,net			35.001.345	37.313.671

The movement of deferred tax asset for the periods ended 31 March 2016 and 2015 are as follows:

	31 March 2016	31 March 2015
1 January	37.313.671	39.335.574
Deferred tax income charged to other comprehensive income		
Tax charged to profit for the period	(2.357.472)	4.396.960
Tax charged to other comprehensive income/expense	45.146	187.164
31 March	35.001.345	43.919.698

NOTE 20 - EARNINGS PER SHARE

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

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

	31 March 2016	31 March 2015
Net income attributable to shareholders (TL)	8.166.742	(2.220.865)
Weighted average number of issued shares	24.000.000.000	24.000.000.000
Earnings per share (Kuruş)	0,034	(0,009)

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NOTE 21 - RELATED PARTY DISCLOSURES

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

i) Due from and due to related party balances as of 31 March 2016 and 31 December 2015:

Due from related parties	31 March 2016	31 December 2015
Ram Dış Ticaret A.Ş. (1) (*)	44.196.969	99.343.743
Ford Otosan A.Ş. (2)	302.829	390.673
Türk Traktör ve Ziraat Makineleri A.Ş. (1)	218.028	413.262
Otokar Europe SAS (3)	-	6.742.250
Other (1)	-	16.257
Total	44.717.826	106.906.185

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

Due to related parties	31 March 2016	31 December 2015
Koç Holding A.Ş. (2)	2.528.667	5.992.481
Ram Dış Ticaret A.Ş. (1)	1.118.581	14.026.345
Ram Sigorta Aracılık Hz. A.Ş. (1)	932.794	657.447
Zer Merkezi Hizmetler A.Ş. (1)	846.210	3.244.001
Opet Fuchs Madeni Yağ A.Ş. (1)	346.366	398.558
Setur Servis Turistik A.Ş. (1)	277.135	1.029.066
Akpa Dayanıklı Tük. Paz. A.Ş. (1)	202.997	315.837
Opet Petrolcülük A.Ş. (1)	96.837	84.837
Otokoç Otomotiv Tic. ve San. A.Ş. (1)	39.966	269.119
Koç Sistem Bilgi ve İletişim Hiz. A.Ş. (1)	24.429	202.101
Divan Turizm İşletmeleri A.Ş. (1)	859	442.943
Eltek Elektrik Enerji İth. İhr. Top. Tic. A.Ş. (1)	-	492.530
Other (1)	9.023	14.085
Total	6.423.864	27.169.350

- (1) Related parties of parent group
(2) Shareholder of group
(3) The Company's subsidiary not in scope of consolidation

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NOTE 21 - 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 2016	1 January – 31 March 2015
Ram Dış Ticaret A.Ş. (1) (*)	81.046.758	34.890.963
Türk Traktör ve Ziraat Makineleri A.Ş. (1)	316.330	227.793
Aygaz A.Ş. (1)	2.668	-
Otokar Europe SAS (3)	-	3.693.140
Ford Otosan A.Ş. (2)	-	76
Total	81.365.756	38.811.972

(*) 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 2016	1 January – 31 March 2015
Koç Sistem Bilgi ve İletişim Hizm. A.Ş. (1)	646.687	205.930
Zer Merkezi Hizmetler A.Ş. (1)	37.073	23.708
Arçelik A.Ş. (1)	1.216	2.677
Otokoç Otomotiv Tic. ve San. A.Ş. (1)	-	161.901
Total	684.976	394.216

Inventories purchased	1 January – 31 March 2016	1 January – 31 March 2015
Zer Merkezi Hizmetler A.Ş. (1)	3.548.975	3.404.492
Ram Dış Ticaret A.Ş. (1)	499.604	909.536
Akpa Dayanıklı Tük.Paz. A.Ş. (1)	442.901	475.414
Opet Petrolcülük A.Ş. (1)	423.963	414.315
Opet Fuchs Madeni Yağ A.Ş. (1)	406.491	538.206
Koçtaş Yapı Marketleri A.Ş. (1)	8.179	11.883
Arçelik A.Ş. (1)	717	1.029
Ford Otosan A.Ş. (2)	-	1.841
Total	5.330.830	5.756.716

- (1) Related parties of parent group
(2) Shareholder of group
(3) The Company’s subsidiary not in scope of consolidation

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

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NOTE 21 - RELATED PARTY DISCLOSURES (Continued)

Services purchased	1 January – 31 March 2016	1 January – 31 March 2015
Ram Dış Ticaret A.Ş. (1)	9.058.321	1.981.134
Koç Holding A.Ş. (2) (*)	2.715.970	591.669
Setur Servis Turistik A.Ş. (1)	1.246.414	912.036
Eltek Elektrik Enerji İth. İhr.Top.Tic. A.Ş. (1)	1.147.852	1.208.925
Ram Sigorta Aracılık Hz. A.Ş. (1) (**)	1.135.320	-
Koç Sistem Bilgi ve İlt. Hizm. A.Ş. (1)	597.852	308.147
Otokoç Otomotiv Tic. ve San. A.Ş. (1)	584.596	347.612
Divan Turizm İşletmeleri A.Ş. (1)	50.071	4.878
Otokar Europe SAS (3)	-	734.335
Setair Hava Taşımacılığı ve Hizm. A.Ş. (1)	-	3.933
Other (1)	38.426	143.091
Total	16.574.822	6.235.760

(*) 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 March 31, 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 2016	31 December 2015
Yapı ve Kredi Bankası A.Ş. (1)		
- Demand deposits	2.996	2.931
- Time deposits	10.989.226	33.072.560
Total	10.992.222	33.075.491

Checks and notes in collection	31 March 2016	31 December 2015
Yapı ve Kredi Bankası A.Ş. (1)	17.994.461	25.716.139
Total	17.994.461	25.716.139

Borrowings	31 March 2016	31 December 2015
Yapı ve Kredi Bankası A.Ş. (1)	44.249.106	40.176.227
Total	44.249.106	40.176.227

- (1) Related parties of parent group
(2) Shareholder of group
(3) The Company’s subsidiary not in scope of consolidation

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

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NOTE 21 - RELATED PARTY DISCLOSURES (Continued)

For the periods ended 1 January-31 March 2016 and 2015, other income and expense with related parties:

	1 January – 31 March 2016	1 January – 31 March 2015
Exchange gain from trade receivables and payables		
Ram Dış Ticaret A.Ş. (1)	122.653	41.124
Yapı Kredi Faktoring A.Ş. (1)	197.488	-
Otokar Europe SAS (3)	-	5.843
Other (1)	25.245	2.150
Total	345.386	49.117

	1 January – 31 March 2016	1 January – 31 March 2015
Exchange loss from trade receivables and payables		
Ram Dış Ticaret A.Ş. (1)	497.199	673.031
Otokar Europe SAS (3)	-	131.576
Other (1)	55.757	8.201
Total	552.956	812.808

For the years ended 1 January - 31 March 2016 and 2015, financial income and expense with related parties:

	1 January – 31 March 2016	1 January – 31 March 2015
Interest income		
Yapı ve Kredi Bankası A.Ş. (1)	89.365	938
Total	89.365	938

	1 January – 31 March 2016	1 January – 31 March 2015
Interest expense		
Yapı ve Kredi Bankası A.Ş. (1)	1.091.951	1.676.170
Total	1.091.951	1.676.170

- (1) Related parties of parent group
(3) The Company's subsidiary not in scope of consolidation

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

NOTE 21 - RELATED PARTY DISCLOSURES (Continued)

For the periods ended 31 March 2016 and 2015, financial income and expense with related parties:

	1 January – 31 March 2016	1 January – 31 March 2015
Foreign exchange gains		
Yapı ve Kredi Bankası A.Ş. (1)	124.203	2.657.389
Total	124.203	2.657.389
	1 January – 31 March 2016	1 January – 31 March 2015
Foreign exchange loss		
Yapı ve Kredi Bankası A.Ş. (1)	1.802.438	2.223.069
Total	1.802.438	2.223.069

(1) Related parties of parent group

Benefits to key management

Salaries and similar benefits provided to the executive management by the Group for the three period ended 31 March 2016 amounted to TL 1.581.150 (31 March 2015: TL 1.093.746). Executives are composed of board of directors members, general manager and assistants of general manager.

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS AT 31 MARCH 2016

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

a) Foreign currency risk and related sensitivity analysis

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

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

31 March 2016	TL equivalent (functional para birimi)	currency)	EUR	GBP
1. Trade receivables	355.403.957	83.076.035	37.406.451	3.112
2a. Monetary financial assets (including cash, bank accounts)	130.648.791	39.333.969	5.984.609	171
2b. Non-monetary financial assets	-	-	-	-
3. Other	1.262	304	125	-
4. Current assets (1+2+3)	486.054.010	122.410.308	43.391.185	3.283
5. Trade receivables	80.830.268	-	25.195.682	-
6a. Monetary financial assets	-	-	-	-
6b. Non-monetary financial assets	-	-	-	-
7. Other	55.628	-	17.340	-
8. Non-current assets (5+6+7)	80.885.896	-	25.213.022	-
9. Total assets((4+8)	566.939.906	122.410.308	68.604.207	3.283
10. Trade payables	(32.324.146)	(4.431.750)	(5.955.810)	(161.996)
11. Financial liabilities	(30.229.131)	-	(9.422.752)	-
12a. Monetary other liabilities	(358.482.193)	(104.342.907)	(19.550.861)	(28.426)
12b. Non-monetary other liabilities	(22.039.647)	-	(6.870.000)	-
13. Current liabilities (10+11+12)	(443.075.117)	(108.774.657)	(41.799.423)	(190.422)
14. Trade payables	-	-	-	-
15. Financial liabilities	(96.445.383)	-	(30.063.085)	-
16a. Monetary other liabilities	-	-	-	-
16b. Non-monetary other liabilities	(23.074.259)	-	(7.192.500)	-
17. Non-current liabilities (14+15+16)	(119.519.642)	-	(37.255.585)	-
18. Total liabilities (13+17)	(562.594.759)	(108.774.657)	(79.055.008)	(190.422)
19. Net asset/(liability) position of off-balance sheet derivative instruments((19a-19b)	(48.713)	(7.942.900)	7.000.000	-
19a. Hedged total assets amount	22.456.700	-	7.000.000	-
19b. Hedged total liabilities amount	(22.505.413)	(7.942.900)	-	-
20. Net foreign currency asset/(liability) position (9+18+19)	4.296.434	5.692.751	(3.450.801)	(187.139)
21. Net foreign currency asset/(liability) position of monetary items (=1+2a+5+6a-10-11-12a-14-15-16a)	49.402.163	13.635.347	3.594.234	(187.139)
22. Total fair value of financial instruments used for foreign currency hedging	(48.713)	(7.942.900)	(7.000.000)	-
23. Export (As of 31 March 2016)	115.406.553	28.869.950	9.576.394	5.169
24. Import (As of 31 March 2016)	108.849.864	19.826.208	14.383.599	938.454

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NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS AT 31 MARCH 2016

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

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

31 December 2015	TL equivalent (functional currency)	USD	EUR	GBP
1. Trade receivables	216.351.765	30.436.177	40.200.851	26.347
2a. Monetary financial assets (including cash, bank accounts)	145.541.867	47.570.674	2.273.765	60
2b. Non-monetary financial assets	-	-	-	-
3. Other	1.281	304	125	-
4. Current assets (1+2+3)	361.894.913	78.007.155	42.474.741	26.407
5. Trade receivables	99.220.390	-	31.224.946	-
6a. Monetary financial assets	188.278.141	64.753.797	-	-
6b. Non-monetary financial assets	-	-	-	-
7. Other	55.100	-	17.340	-
8. Non-current assets (5+6+7)	287.553.631	64.753.797	31.242.286	-
9. Total assets(4+8)	649.448.544	142.760.952	73.717.027	26.407
10. Trade payables	(68.719.333)	(16.392.611)	(4.554.888)	(1.530.580)
11. Financial liabilities	-	-	-	-
12a. Monetary other liabilities	(335.308.086)	(114.658.757)	(567.734)	(28.426)
12b. Non-monetary other liabilities	(21.830.112)	-	(6.870.000)	-
13. Current liabilities (10+11+12)	(425.857.531)	(131.051.368)	(11.992.622)	(1.559.006)
14. Trade payables	-	-	-	-
15. Financial liabilities	(158.609.314)	-	(49.914.814)	-
16a. Monetary other liabilities	-	-	-	-
16b. Non-monetary other liabilities	(28.312.416)	-	(8.910.000)	-
17. Non-current liabilities (14+15+16)	(186.921.730)	-	(58.824.814)	-
18. Total liabilities (13+17)	(612.779.261)	(131.051.368)	(70.817.436)	(1.559.006)
19. Net asset/(liability) position of off-balance sheet derivative instruments(19a-19b)	(31.351.414)	(9.176.250)	(3.500.000)	1.500.000
19a. Hedged total assets amount	17.568.986	3.823.750	-	1.500.000
19b. Hedged total liabilities amount	(48.920.400)	(13.000.000)	(3.500.000)	-
20. Net foreign currency asset/(liability) position (9+18+19)	5.317.869	2.533.334	(600.409)	(32.599)
21. Net foreign currency asset/(liability) position of monetary items (=1+2a+5+6a-10-11-12a-14-15-16a)	86.755.430	11.709.280	18.662.126	(1.532.599)
22. Total fair value of financial instruments used for foreign currency hedging	(31.351.415)	(9.176.250)	(3.500.000)	1.500.000
23. Export (As of 31 March 2015)	55.042.568	14.266.104	6.990.742	3.578
24. Import (As of 31 March 2015)	86.093.239	17.108.235	14.633.352	827.194

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS AT 31 MARCH 2016

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

The following table demonstrates the sensitivity to a possible change of 10% in the USD, Euro and GBP exchange rates, with all other variables held constant, on the Group's income before tax as of 31 March 2016 and 31 December 2015:

31 March 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	1.612.984	(1.612.984)
2- Amount hedged for USD risk (-)	-	-
3- USD net effect (1+2)	1.612.984	(1.612.984)
<i>In case 10% appreciation of EUR against TL:</i>		
4- EUR net asset/liability	(1.107.051)	1.107.051
5- Amount hedged for EUR risk (-)	-	-
6- EUR net effect (4+5)	(1.107.051)	1.107.051
<i>In case 10% appreciation of GBP against TL:</i>		
7- GBP net asset/liability	(76.289)	76.289
8- Amount hedged for GBP risk (-)	-	-
9- GBP net effect (7+8)	(76.289)	76.289
Total (3+6+9)	429.644	(429.644)
31 December 2015	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	736.593	(736.593)
2- Amount hedged for USD risk (-)	-	-
3- USD net effect (1+2)	736.593	(736.593)
<i>In case 10% appreciation of EUR against TL:</i>		
4- EUR net asset/liability	(190.786)	190.786
5- Amount hedged for EUR risk (-)	-	-
6- EUR net effect (4+5)	(190.786)	190.786
<i>In case 10% appreciation of GBP against TL:</i>		
7- GBP net asset/liability	(14.020)	14.020
8- Amount hedged for GBP risk (-)	-	-
9- Amount hedged for GBP risk (-)	(14.020)	14.020
Total (3+6+9)	531.787	(531.787)

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS AT 31 MARCH 2016

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

NOTE 23 - FINANCIAL INSTRUMENTS

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

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

The following table presents the Group’s assets that are measured at fair value at March 31, 2016 and 31 December 2014:

31 March 2016

Liabilities	Level 1	Level 2	Level 3	Total
Derivative financial instruments	-	48.713	-	48.713
Total	-	48.713	-	48.713

31 December 2015

Assets	Level 1	Level 2	Level 3	Total
Derivative financial instruments	-	146.636	-	146.636
Total	-	146.636	-	146.636

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.

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 THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS
AT 31 MARCH 2016**

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

NOTE 24 - SUBSEQUENT EVENTS

None.

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

None.

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