(Convenience translation of financial statements originally issued in Turkish)

Otokar Otomotiv ve Savunma Sanayi Anonim Şirketi

Financial statements for the interim period January 1 - September 30, 2012

(Convenience translation of financial statements originally issued in Turkish)

Otokar Otomotiv ve Savunma Sanayi Anonim Şirketi

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Otokar Otomotiv ve Savunma Sanayi Anonim Şirketi

Balance sheet as of September 30, 2012
Prepared in accordance with the Communiqué No: XI-29 “Communiqué on Financial Reporting Standards in Capital Market”
(Currency –Turkish Lira (TL) unless otherwise indicated)

	Notes	Current period Not audited September 30, 2012	Previous period Audited December 31, 2011
Assets			
Current assets			
Cash and cash equivalents	3	**10.520.822**	4.470.424
Trade receivables	6	**260.683.827**	215.803.465
- Due from related parties	6, 19	**35.466.637**	19.862.364
- Other trade receivables	6	**225.217.190**	195.941.101
Other receivables		**38.079**	577
Inventories	7	**290.907.261**	168.551.835
Costs and estimated earnings in excess of billings on uncompleted contracts	8	**54.091.949**	43.967.333
Derivative financial assets	11	**-**	9.022.907
Other current assets	13	**173.507.608**	133.705.191
Total current assets		**789.749.546**	575.521.732
Non-current assets			
Trade receivables	6	**60.033.505**	81.455.465
Other receivables		**5.903**	5.903
Financial investments	4	**239.280**	239.280
Property, plant and equipment	9	**122.099.487**	113.300.891
Intangible assets	10	**88.370.844**	71.474.322
Deferred tax asset	17	**16.072.976**	12.648.352
Total non-current assets		**286.821.995**	279.124.213
Total assets		**1.076.571.541**	854.645.945

The accompanying policies and explanatory notes on pages 7 through 37 form an integral part of the financial statements.

Otokar Otomotiv ve Savunma Sanayi Anonim Şirketi

Balance sheet as of September 30, 2012
Prepared in accordance with the Communiqué No: XI-29 "Communiqué on Financial Reporting Standards in Capital Market"
(Currency –Turkish Lira (TL) unless otherwise indicated)

	Notes	Current period Not audited September 30, 2012	Previous period Audited December 31, 2011
Liabilities			
Current liabilities			
Financial liabilities	5	**201.403.642**	96.867.900
Derivative financial liabilities	11	**6.408.994**	-
Trade payables	6	**84.610.110**	78.495.682
- Due from related parties	6,19	**3.622.456**	5.086.142
- Other trade payables	6	**80.987.654**	73.409.540
Other payables	8	**224.515.713**	154.929.567
Government incentives and grants		**621.992**	621.992
Current tax liabilities for the current period income	17	**9.194.168**	3.089.785
Provisions	12	**242.564.676**	206.459.342
Other current liabilities	13	**3.845.826**	8.233.975
Total current liabilities		**773.165.121**	548.698.243
Non-current liabilities			
Financial liabilities	5	**70.348.197**	82.471.971
Government incentives and grants		**1.485.102**	1.017.366
Employee termination benefits	17	**12.823.990**	9.110.483
Total non-current liabilities		**84.657.289**	92.599.820
Shareholders' equity			
Paid-in share capital		**24.000.000**	24.000.000
Inflation adjustment on equity items		**52.743.030**	52.743.030
Restricted reserves		**22.798.147**	18.118.147
Retained earnings		**65.806.705**	63.640.101
Net income for the period		**53.401.249**	54.846.604
Total shareholders' equity		**218.749.131**	213.347.882
Total liabilities		**1.076.571.541**	854.645.945

The accompanying policies and explanatory notes on pages 7 through 37 form an integral part of the financial statements.

(Convenience translation of financial statements originally issued in Turkish)

Otokar Otomotiv ve Savunma Sanayi Anonim Şirketi

Comprehensive income statement for the period ended September 30, 2012
Prepared in accordance with the Communiqué No: XI-29 "Communiqué on Financial Reporting Standards in Capital Market"
(Currency –Turkish Lira (TL) unless otherwise indicated)

		Current period		Previous period	
		Not audited	**Not audited**	Not audited	Not audited
	Notes	**January 1 – September 30, 2012**	**July 1 – September 30, 2012**	January 1 – September 30, 2011	July 1 – September 30, 2011
Net sales	14	**670.684.179**	**235.483.095**	578.901.181	189.177.808
Cost of sales (-)	14	**(519.190.808)**	**(185.021.883)**	(463.454.338)	(159.690.388)
Gross profit		**151.493.371**	**50.461.212**	115.446.843	29.487.420
Selling, marketing and distribution expenses (-)		**(52.358.399)**	**(20.271.982)**	(47.676.513)	(14.661.152)
General and administrative expense (-)		**(22.938.246)**	**(7.127.004)**	(16.741.598)	(5.209.524)
Research and development expenses (-)		**(12.987.939)**	**(4.231.114)**	(8.959.589)	(3.243.009)
Other operating income		**3.977.500**	**1.557.223**	3.650.075	1.614.563
Other operating expense (-)		**(1.098.866)**	**1.554.519**	(3.457.006)	(624.814)
Operating profit		**66.087.421**	**21.942.854**	42.262.212	7.363.484
Financial income	15	**95.669.094**	**24.934.446**	62.103.107	26.713.442
Financial expense (-)	16	**(105.509.349)**	**(29.035.784)**	(68.948.921)	(30.912.262)
Income before taxes from continuing operations		**56.247.166**	**17.841.516**	35.416.398	3.164.664
Tax income/expense for continuing operations					
- Current tax expense for the period	17	**(6.270.541)**	**(3.101.682)**	(9.095.471)	1.258.149
- Deferred tax income/(loss)	17	**3.424.624**	**1.728.110**	5.440.155	(2.073.022)
Net income		**53.401.249**	**16.467.944**	31.761.082	2.349.791
Other comprehensive income:		**-**	**-**	-	-
Total comprehensive income		**53.401.249**	**16.467.944**	31.761.082	2.349.791
Earnings per share	18	**0,00223**	**0,00069**	0,00132	0,00010

The accompanying policies and explanatory notes on pages 7 through 37 form an integral part of the financial statements.

(Convenience translation of financial statements originally issued in Turkish)

Otokar Otomotiv ve Savunma Sanayi Anonim Şirketi

Statement of changes in equity for the period ended September 30, 2012
Prepared in accordance with the Communiqué No: XI-29 “Communiqué on Financial Reporting Standards in Capital Market”
(Currency –Turkish Lira (TL) unless otherwise indicated)

	Paid-in share capital	Inflation adjustment on equity items	Restricted reserves	Retained earnings	Net income for the period	Total shareholders’ equity
January 1, 2011	24.000.000	52.743.030	16.738.147	59.241.787	20.778.314	173.501.278
Transfer to retained earnings	-	-	-	20.778.314	(20.778.314)	-
Transfer to restricted reserves	-	-	1.380.000	(1.380.000)	-	-
Dividends paid	-	-	-	(15.000.000)	-	(15.000.000)
Total comprehensive income	-	-	-	-	31.761.082	31.761.082
September 30, 2011	**24.000.000**	**52.743.030**	**18.118.147**	**63.640.101**	**31.761.082**	**190.262.360**
January 1, 2012	**24.000.000**	**52.743.030**	**18.118.147**	**63.640.101**	**54.846.604**	**213.347.882**
						-
Transfer to retained earnings	**-**	**-**	**-**	**54.846.604**	**(54.846.604)**	**-**
Transfer to restricted reserves	**-**	**-**	**4.680.000**	**(4.680.000)**	**-**	**-**
Dividends paid(Note 18)	**-**	**-**	**-**	**(48.000.000)**	**-**	**(48.000.000)**
Total comprehensive income	**-**	**-**	**-**	**-**	**53.401.249**	**53.401.249**
September 30, 2012	**24.000.000**	**52.743.030**	**22.798.147**	**65.806.705**	**53.401.249**	**218.749.131**

The accompanying policies and explanatory notes on pages 7 through 37 form an integral part of the financial statements.

(Convenience translation of financial statements originally issued in Turkish)

Otokar Otomotiv ve Savunma Sanayi Anonim Şirketi

Cash flow statement for the period ended September 30, 2012
Prepared in accordance with the Communiqué No: XI-29 “Communiqué on Financial Reporting Standards in Capital Market”
(Currency –Turkish Lira (TL) unless otherwise indicated)

	Notes	Not Audited September 30, 2012	Not Audited September 30, 2011
Cash flows from operating activities			
Income before provision for taxes		**56.247.166**	35.416.398
Adjustments to reconcile net income to net cash flows from operating activities:			
Depreciation and amortization expense	9,10	**21.777.116**	15.656.356
Reserve for retirement pay		**5.025.683**	2.667.201
Provision for impairment on inventory		**566.228**	290.208
Warranty provision expense		**14.299.446**	16.974.185
Gain on sale of property, plant and equipment		**(19.236)**	(1.080.595)
Interest expense	16	**19.739.038**	10.011.207
Interest income	15	**(989.276)**	(1.435.045)
Provision for doubtful receivables		**973.437**	3.420.757
Forward transactions(net)		**(2.228.692)**	(1.365.674)
Operating income before changes in operating asset and liabilities		**115.390.910**	80.554.998
Trade receivables and other receivables		**(24.469.340)**	(109.396.179)
Costs and estimated earnings in excess of billings on uncompleted contracts		**(10.124.616)**	(19.728.431)
Inventories		**(122.921.654)**	(134.738.575)
Other current assets		**(39.802.417)**	(66.752.396)
Trade payables		**6.114.428**	47.093.348
Other current liabilities		**101.877.115**	110.413.529
Taxes paid		**(166.158)**	(11.899.551)
Warranties paid		**(14.405.495)**	(10.929.950)
Employee termination benefits paid		**(1.312.176)**	(956.860)
Net cash provided from / (used in) operating activities		**10.180.597**	(116.340.067)
Investing activities			
Purchase of property, plant and equipment	9	**(18.406.000)**	(15.003.199)
Purchase of intangible assets	10	**(29.857.819)**	(18.905.174)
Proceeds from sale of property, plant and equipment		**810.821**	2.115.865
Interest received		**989.276**	1.435.045
Net cash used in investing activities		**(46.463.722)**	(30.357.463)
Financing activities			
Increase on spot borrowings, net		**35.252.246**	32.577.960
Proceeds from bank borrowings		**50.576.750**	80.000.000
Repayments of bank borrowings		**-**	(36.735.103)
Realized forward exchange gain,net		**17.660.593**	(4.859.519)
Interest payments		**(13.156.066)**	(1.888.543)
Dividends paid		**(48.000.000)**	(15.000.000)
Net cash provided by financing activities		**42.333.523**	54.094.795
Net increase/(decrease) in cash and cash equivalents		**6.050.398**	(92.602.735)
Cash and cash equivalents at the beginning of the period	3	**4.470.424**	111.564.742
Cash and cash equivalents at the end of the period	3	**10.520.822**	18.962.007

The accompanying policies and explanatory notes on pages 7 through 37 form an integral part of the financial statements.

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

1. Organisation 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 buses, trailers, semi-trailers and cross-country comprises the majority of its production. The number of the personnel in the Company is 2.172 (December 31, 2011 – 1.519).

The registered addresses of the Company are as follows:

<u>Headquarters:</u>

Aydınevler Mahallesi, Dumlupınar Cad. No: 24 A Blok
34854 Küçükyalı / İstanbul

<u>Factory:</u>

Atatürk Cad. No: 9
54580 Arifiye / Sakarya

Financial statements are authorized for issue by the Board of Directors of the Company on October 22, 2012, signed by Ahmet Serdar Görgüç and Hüseyin Odabaş on behalf of Board of Directors of the Company. The Board of Directors has the power to amend the financial statements after issue.

The Company conducts part of its business transactions with the Koç Holding A.Ş. and related parties and has both customer and supplier relationships with related parties. The Company is registered to the Capital Market Board ("CMB") and its shares are listed on the Istanbul Stock Exchange ("ISE") since 1996. As of September 30, 2012, the shares listed on the ISE are 29,91% of the total shares. As of September 30, 2012, 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 Koc Family.

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

2. Basis of presentation

2.1 Basis of presentation

The Company maintains its books of account and prepares its statutory financial statements in Turkish Lira (TL) in accordance with regulations on accounting and reporting framework and the Uniform Chart of Accounts issued by the Ministry of Finance. These financial statements have been prepared from the statutory financial statements of the Company with adjustments and reclassifications for the purpose of fair presentation in accordance with accounting and reporting standards prescribed by Capital Markets Board. The financial statements of current period are prepared in accordance with International Accounting / Financial Reporting Standards (IAS/IFRS) as prescribed in the CMB communiqué No:XI-29 "Communiqué on Financial Reporting Standards in Capital Markets" (Communiqué) which is published in the official gazette and become effective as of April 9, 2008.

The interim condensed financial statements for the nine month period ended September 30, 2012 have been prepared in accordance with IAS 34 Interim Financial Reporting. The interim condensed financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Company's annual financial statements as at December 31, 2011.

In accordance with the CMB's resolution dated March 17, 2005 and numbered 11/367, the financial statements were restated in accordance with International Accounting Standards (IAS) 29 (Financial Reporting in Hyperinflationary Economies) for the last time as of December 31, 2004, since the objective conditions which require the application of restatement of financial statements have not been realized and that based on the existing data CMB has foreseen that the indications whether such conditions are going to be realized in the future is no longer probable. Therefore, non-monetary assets, liabilities and equity items including the share capital as of September 30, 2012 and December 31, 2011 have been restated by applying the relevant conversion factors through December 31, 2004 and carrying additions after December 31, 2004 at their nominal values.

Functional and presentation currency

Functional and presentation currency of the Company is TL.

2.2 Changes in accounting policies

The accounting policies adopted in the preparation of the interim condensed financial statements as at September 30, 2012 are consistent with those followed in the preparation of the financial statements of December 31, 2011.

New and amended standards and interpretations:

The accounting policies adopted in preparation of the interim financial statements as at September 30, 2012 are consistent with those of the previous financial year, except for the adoption of new and amended IFRS and IFRIC interpretations effective as of January 1, 2012. The effects of these standards and interpretations on the Company's financial position and performance have been disclosed in the related paragraphs.

2. Basis of presentation (continued)

The new standards, amendments and interpretations which are effective as at January 1, 2012 are as follows:

IAS 12 Income Taxes: Recovery of Underlying Assets (Amendment)

IAS 12 has been updated to include i) a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale and ii) a requirement that deferred tax on non-depreciable assets, measured using the revaluation model in IAS 16, should always be measured on a sale basis. These amendments will be applied retrospectively. This standard has not yet been endorsed by the EU. Adoption of this amendment did not have any impact on the financial position or performance of the Company.

IFRS 7 Financial Instruments: Disclosures - Enhanced Derecognition Disclosure Requirements (Amended)

The purpose of this amendment is to allow users of financial statements to improve their understanding of transfer transactions of financial assets (e.g. securitizations), including understanding the possible effects of any risks that may remain with the entity which transferred the assets. The amendment also requires additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period. Comparative disclosures are not required. The amendment affects disclosures only and did not have any impact on the financial position or performance of the Company.

Standards issued but not yet effective and not early adopted

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

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

The amendments are effective for annual periods beginning on or after July 1, 2012, but earlier application is permitted. The amendments to IAS 1 change only the grouping of items presented in other comprehensive income. Items that could be reclassified (or 'recycled') to profit or loss at a future point in time would be presented separately from items which will never be reclassified. The amendments will be applied retrospectively. The amendment affects presentation only and will have no impact on the financial position or performance of the Company.

IAS 19 Employee Benefits (Amended)

Amended standard is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted. With very few exceptions retrospective application is required. Numerous changes or clarifications are made under the amended standard. Among these numerous amendments, the most important changes are removing the corridor mechanism and making the distinction between short-term and other long-term employee benefits based on expected timing of settlement rather than employee entitlement. The Company is in the process of assessing the impact of the amended standard on the financial position or performance of the Company.

2. Basis of presentation (continued)

IAS 27 Separate Financial Statements (Amended)

As a consequential amendment to IFRS 10 and IFRS 12, the IASB also amended IAS 27, which is now limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. Transitional requirement of this amendment is similar to IFRS 10. This standard has not yet been endorsed by the EU. This amendment will not have an impact on the financial position or performance of the Company.

IAS 28 Investments in Associates and Joint Ventures (Amended)

As a consequential amendment to IFRS 11 and IFRS 12, the IASB also amended IAS 28, which has been renamed IAS 28 Investments in Associates and Joint Ventures, to describe the application of the equity method to investments in joint ventures in addition to associates. Transitional requirement of this amendment is similar to IFRS 11. This standard has not yet been endorsed by the EU. *The* Company does not expect that this amendment will have an impact on the financial position or performance of the Company.

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

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

IFRS 7 Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities (Amended)

New disclosures would provide users of financial statements with information that is useful in (a) evaluating the effect or potential effect of netting arrangements on an entity’s financial position and (b) analysing and comparing financial statements prepared in accordance with IFRSs and other generally accepted accounting standards. This standard has not yet been endorsed by the EU. The amendments are to be retrospectively applied for annual periods beginning on or after January 1, 2013 and interim periods within those annual periods. The amendment affects disclosures only and will have no impact on the financial position or performance of the Company.

IFRS 9 Financial Instruments – Classification and measurement

As amended in December 2011, the new standard is effective for annual periods beginning on or after January 1, 2015. Phase 1 of this new IFRS introduces new requirements for classifying and measuring financial instruments. The amendments made to IFRS 9 will mainly affect the classification and measurement of financial assets and measurement of fair value option (FVO) liabilities and requires that the change in fair value of a FVO financial liability attributable to credit risk is presented under other comprehensive income. Early adoption is permitted. This standard has not yet been endorsed by the EU. The Company is in the process of assessing the impact of the new standard on the financial position or performance of the Company.

2. Basis of presentation (continued)

IFRS 10 Consolidated Financial Statements

The standard is effective for annual periods beginning on or after January 1, 2013 and is applied on a modified retrospective basis. This new Standard may be adopted early, but IFRS 11 Joint Arrangements and IFRS 12 Disclosure of Interests in Other Entities should be also adopted early.

IFRS 10 replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. A new definition of control is introduced, which is used to determine which entities are consolidated. This is a principle based standard and require preparers of financial statements to exercise significant judgment. This standard has not yet been endorsed by the EU. The Company is in the process of assessing the impact of the new standard on the financial position or performance of the Company.

IFRS 11 Joint Arrangements

The standard is effective for annual periods beginning on or after January 1, 2013 and is applied on a modified retrospective basis. This new Standard may be adopted early, but IFRS 10 Consolidated Financial Statements and IFRS 12 Disclosure of Interests in Other Entities should be also adopted early.

The standard describes the accounting for joint ventures and joint operations with joint control. Among other changes introduced, under the new standard, proportionate consolidation is not permitted for joint ventures. This standard has not yet been endorsed by the EU. *The Company does not expect* that this standard will have a significant impact on the financial position or performance of the Company.

IFRS 12 Disclosure of Interests in Other Entities

The standard is effective for annual periods beginning on or after January 1, 2013 and is applied on a modified retrospective basis. This new Standard may be adopted early, but IFRS 10 Consolidated Financial Statements and IFRS 11 Joint Arrangements should be also adopted early.

IFRS 12 includes all of the disclosures that were previously in IAS 27 Consolidated and Separate Financial Statements related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 Interests in Joint Ventures and IAS 28 Investment in Associates. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. This standard has not yet been endorsed by the EU. Under the new standard the Company will provide more comprehensive disclosures for interests in other entities.

IFRS 13 Fair Value Measurement

The new Standard provides guidance on how to measure fair value under IFRS but does not change when an entity is required to use fair value. It is a single source of guidance under IFRS for all fair value measurements. The new standard also brings new disclosure requirements for fair value measurements. IFRS 13 is effective for annual periods beginning on or after January 1, 2013 and will be adopted prospectively. Early application is permitted. The new disclosures are only required for periods beginning after IFRS 13 is adopted — that is, comparative disclosures for prior periods are not required. This standard has not yet been endorsed by the EU. The Company is in the process of assessing the impact of the new standard on the financial position or performance of the Company.

2. Basis of presentation (continued)

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

The Interpretation is effective for annual periods beginning on or after January 1, 2013 with earlier application permitted. Entities will be required to apply its requirements for production phase stripping costs incurred from the start of the earliest comparative period presented. The Interpretation clarifies when production stripping should lead to the recognition of an asset and how that asset should be measured, both initially and in subsequent periods. This standard has not yet been endorsed by the EU. The interpretation is not applicable for the Company and will not have an impact on the financial position or performance of the Company.

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

The guidance is effective for annual periods beginning on or after January 1, 2013. The amendments change the transition guidance to provide further relief from full retrospective application. The date of initial application is defined as 'the beginning of the annual reporting period in which IFRS 10 is applied for the first time'. The assessment of whether control exists is made at 'the date of initial application' rather than at the beginning of the comparative period. If the control assessment is different between IFRS 10 and IAS 27/SIC-12, retrospective adjustments should be determined. However, if the control assessment is the same, no retrospective application is required. If more than one comparative period is presented, additional relief is given to require only one period to be restated. For the same reasons IASB has also amended IFRS 11 Joint Arrangements and IFRS 12 Disclosure of Interests in Other Entities to provide transition relief. This guidance has not yet been endorsed by the EU. *The Company is in the process of assessing the impact of the guidance on the financial position or performance of the Company*.

Improvements to IFRSs

The IASB has issued the Annual Improvements to IFRSs – 2009 – 2011 Cycle, which contains amendments to its standards. The annual improvements project provides a mechanism for making necessary, but non-urgent, amendments to IFRS. The effective date for the amendments is for annual periods beginning on or after January 1, 2013. Earlier application is permitted in all cases, provided that fact is disclosed. This project has not yet been endorsed by the EU. *The Company is in the process of assessing the impact of the project on the financial position or performance of the Company.*

IAS 1 Financial Statement Presentation:
Clarifies the difference between voluntary additional comparative information and the minimum required comparative information.

IAS 16 Property, Plant and Equipment:
Clarifies that major spare parts and servicing equipment that meet the definition of property, plant and equipment are not inventory.

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

2. Basis of presentation (continued)

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

2.3 Significant accounting judgments and estimates

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

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

a) In the context of IAS 11 "Construction contracts" assumptions are made related to total cost of and profitability of projects.

b) Deferred tax asset is recognised to the extent that taxable profit will be available against which the deductible temporary differences can be utilized. When taxable profit is probable, deferred tax asset is recognised for all deductable temporary differences. For the period ended September 30, 2012, since the Management believed the indicators demonstrating that the Company will have taxable profits in the foreseeable future are reliable, deferred tax asset has been recognized.

c) Reserve for retirement pay is determined by using actuarial assumptions (discount rates, future salary increases and employee turnover rates).

d) The Company determines warranty provision by considering the past warranty expenses and remaining warranty period per vehicle.

e) Provision for doubtful receivables is an estimated amount that management believes to reflect for possible future losses on existing receivables that have collection risk due to current economic conditions. During the impairment test for the receivables, the debtors, other than related parties, are assessed with their prior year performances, their credit risk in the current market, and their individual performances after the balance sheet date up to the issuing date of the financial statements and furthermore, the renegotiation conditions with these debtors are considered.

f) Inventory price lists after discount is used to calculate impairment for inventories. In such cases that sales price cannot be predicted, inventory aging and physical status are considered together with technical personnel's opinion. If anticipated expected net realizable value is less than the cost, impairment for the difference is provided for.

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

2. Basis of presentation (continued)

2.4 Summary of significant accounting policies

There have been no significant changes in accounting policies which were disclosed in financial statements prepared as of December 31, 2011.

2.5 Segment reporting

As mentioned in Note 4 ; since the operation of Otokar Europe SAS which has started its operations in abroad , does not materially affect the financial statements of the Company, it has not been subject to consolidation and is carried at cost values. Therefore, since the Company doesn't have different geographic and operational units, the Company does not prepare segment reporting and follows its financial statements by one segment.

2.6 Convenience translation into English of financial statements originally issued in Turkish

Accounting principles and standards applied in the accompanying financial statements (CMB financial accounting standards) are based on International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board, except for the adoption of an earlier date for discontinuation of application of IAS 29 (Financial Reporting in Hyperinflationary Economies). As per CMB financial accounting standards application of inflation accounting was ceased effective as of January 1, 2005 whereas per IFRS it was ceased effective January 1, 2006.

3. Cash and cash equivalents

	September 30, 2012	December 31, 2011
Cash at banks		
- demand deposits	**7.460.139**	2.897.205
Checks and notes received	**3.020.087**	1.526.619
Other	**40.596**	46.600
	10.520.822	4.470.424

As of September 30, 2012, the Company has no time deposit (December 31, 2011 - None).

As of September 30, 2012 and December 31, 2011, checks and notes received consist of checks and notes given to banks for collections which are due as of balance sheet date.

As of September 30, 2012, the Company has restricted bank deposit amounting to TL 1.336 (December 31, 2011 – TL 1.145).

4. Financial Investments

The Company has a %100 owned subsidiary titled as "Otokar Europe SAS" with a capital of Euro 100.000, established on August 18, 2011, for the purpose of organizing export activities and increasing export sales. Since —Otokar Europe SAS has not yet started its operations and does not materially affect the financial statements, it has not been subject to consolidation and is carried at cost values.The paid-in capital of Otokar Europe SAS is TL 239.280.

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

5. Financial liabilities

			September 30,2012
	Maturities	Interest rate (%)	TL
Short-term bank borrowings (*)			
Denominated in TL	**October 1, 2012- January 7,2013**	**7,50 – 11,34**	**201.403.642**
Total			**201.403.642**

(*) Bearing fixed interest rate

			September 30,2012
	Maturities	Interest rate (%)	TL
Long-term bank borrowings (*)(**)			
Denominated in TL	**March 26, 2014- July 25, 2014**	**10,71 - 11,81**	**70.348.197**
Total			**70.348.197**

(*) Bearing fixed interest rate
(**) Principles of long- term borrowings outstanding at September 30, 2012 will be repaid on their maturity days with all interests accrued. Maturity term of long term borrowings on average is 603 days.

			December 31, 2011
	Maturities	Interest rate (%)	TL
Short-term bank borrowings (*)			
Denominated in TL	January 2, 2012 - March 15,2012	8,55 – 12,95	96.867.900
Total			96.867.900

			December 31, 2011
	Maturities	Interest rate (%)	TL
Long-term bank borrowings (*)(**)			
Denominated in TL	January 7, 2013 –September 6,2013	10,80 – 11,16	82.471.971
Total			82.471.971

(*) Bearing fixed interest rate
(**) Maturity term of long term borrowings on average is 499 days.

The Company has not provided any guarantees for the borrowings received as of September 30, 2012 (December 31, 2011 - None).

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

6. Trade receivables and payables

Trade receivables

	September 30, 2012	December 31, 2011
Trade receivables	**106.681.785**	67.250.300
Notes receivables	**136.570.627**	147.028.337
	243.252.412	214.278.637
Less: Provision for doubtful receivables	**(18.035.222)**	(18.337.536)
Other short-term trade receivables	**225.217.190**	195.941.101
Trade receivables from related parties (Note 19)	**35.466.637**	19.862.364
Short-term trade receivables	**260.683.827**	215.803.465
Long-term notes receivable, net	**60.033.505**	81.455.465
Long-term trade receivables	**60.033.505**	81.455.465

As of September 30, 2012, average collection term for short term trade receivables is 60-90 days (December 31, 2011 – 60-90 days).

<u>Guarantees received for trade receivables</u>

Receivables of the Company mainly relate to the sales to the minibus and bus dealers and military industry vehicle sales. As of September 30, 2012, the total trade receivable from dealers amounting to TL 56.097.910 (December 31, 2011 – TL 52.916.990), after provision reserved for doubtful receivables, has been secured by mortgages and guarantees at the amount of TL 55.289.905 (December 31, 2011 – TL 41.753.015).

The movement of the provision for doubtful receivables for the periods ended September 30, 2012 and September 30, 2011 are as follows:

	September 30, 2012	September30, 2011
January 1	**18.337.536**	10.540.246
Collections	**(1.275.751)**	(19.256)
Additional provision	**973.437**	3.420.757
Total	**18.035.222**	13.941.747

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

6. Trade receivables and payables (continued)

Trade receivables aging analysis

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

September 30, 2012	**Trade receivables**
1- 30 day past due	**-**
1- 3 month past due	**74.704**
3- 12 month past due	**-**
1- 5 year past due	**954.268**
Over 5 year past due	**-**
Total	**1.028.972**
Amount secured with guarantee (1)	**968.799**

December 31, 2011	Trade receivables
1- 30 day past due	-
1- 3 month past due	251.577
3- 12 month past due	-
1- 5 year past due	1.222.206
Over 5 year past due	-
Total	1.473.783
Amount secured with guarantee (1)	1.462.159

(1) Pledges on trailers.

Trade payables

	September 30, 2012	December 31, 2011
Trade payables	**80.806.754**	73.243.490
Notes payables	**180.900**	166.050
Short-term other trade payables	**80.987.654**	73.409.540
Trade payables to related parties (Note 19)	**3.622.456**	5.086.142
Short-term trade payables	**84.610.110**	78.495.682

As of September 30, 2012, average payment term for trade payables is 45-60 days (December 31, 2011 – 45-60 days).

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

7. Inventories

	September 30, 2012	December 31, 2011
Raw material	**116.964.599**	47.815.012
Work-in-process	**27.826.343**	9.056.158
Finished goods	**67.122.698**	61.757.207
Merchandise	**31.153.193**	24.079.893
Goods in transit	**49.982.108**	27.419.017
(-)Impairment for inventories (*)	**(2.141.680)**	(1.575.452)
Total	**290.907.261**	168.551.835

(*) TL1.784.902 of impairment is related to finished goods (December 31, 2011 – TL1.148.244) and TL 356.778 (December 31, 2011 – TL 427.208) is related to merchandises. The impairment has been accounted under cost of sales account.

8. Costs and billings on uncompleted contracts and other payables

As of September 30, 2012 net credit balance of total estimated earnings in excess of billings on uncompleted contracts and current advances taken amounting to TL54.091.949 (December 31, 2011 - TL43.967.333).

As of September 30, 2012, the short term advances taken by the Company related with ongoing projects which amounts to TL 136.470.616 was included in other payables in the financial statements (December 31, 2011 – TL 61.420.658). As of September 30, 2012, TL 82.273.359 (December 31, 2011 – TL 44.050.664) of other payables comprise other advances taken and other payables amounting to TL 5.771.738 (December 31, 2011 – TL 6.582.274).

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

9. Property, plant and equipment

For the period ended September 30, 2012, the movement of property, plant and equipment and the accumulated depreciation is as follows:

	January 1, 2012	**Additions**	**Disposals**	**Transfers**	**September 30, 2012**
Cost:					
Land	**36.970.746**	**-**	**-**	**-**	**36.970.746**
Land improvements	**6.315.934**	**3.586.876**	**-**	**-**	**9.902.810**
Buildings	**57.228.511**	**-**	**-**	**-**	**57.228.511**
Machinery, equipment and installations	**88.778.684**	**3.644.767**	**(3.000)**	**9.720.946**	**102.141.397**
Motor vehicles	**6.936.226**	**893.286**	**(983.237)**	**33.498**	**6.879.773**
Furniture and fixtures	**23.123.058**	**2.374.946**	**(41.168)**	**30.614**	**25.487.450**
Leasehold improvements	**1.448.602**	**-**	**-**	**-**	**1.448.602**
Construction in progress	**10.604.273**	**7.906.125**	**-**	**(9.785.058)**	**8.725.340**
	231.406.034	**18.406.000**	**(1.027.405)**	**-**	**248.784.629**
Accumulated depreciation:					
Land improvements	**2.527.139**	**271.767**	**-**	**-**	**2.798.906**
Buildings	**23.662.910**	**1.992.683**	**-**	**-**	**25.655.593**
Machinery, equipment and installations	**72.176.019**	**4.967.356**	**(2.000)**	**-**	**77.141.375**
Motor vehicles	**3.601.725**	**351.343**	**(206.124)**	**-**	**3.746.944**
Furniture and fixtures	**14.891.289**	**1.204.433**	**(27.696)**	**-**	**16.068.026**
Leasehold improvements	**1.246.061**	**28.237**	**-**	**-**	**1.274.298**
	118.105.143	**8.815.819**	**(235.820)**	**-**	**126.685.142**
Net book value	**113.300.891**				**122.099.487**

For the period ended September 30, 2011, the movement of property, plant and equipment and the accumulated depreciation is as follows:

	January 1, 2011	Additions	Disposals	Transfers	September 30, 2011
Cost:					
Land	36.396.386	574.360	-	-	36.970.746
Land improvements	5.481.336	-	-	-	5.481.336
Buildings	53.219.003	65.994	-	-	53.284.997
Machinery, equipment and installations	92.434.926	1.672.021	(823.045)	-	93.283.902
Motor vehicles	6.698.795	167.767	(836.216)	-	6.030.346
Furniture and fixtures	18.759.148	2.067.462	(175.371)	20.808	20.672.047
Leasehold improvements	1.448.602	-	-	-	1.448.602
Construction in progress	670.873	10.455.595	-	(20.808)	11.105.660
	215.109.069	15.003.199	(1.834.632)	-	228.277.636
Accumulated depreciation:					
Land improvements	2.330.079	151.241	-	-	2.481.320
Buildings	21.113.641	1.893.019	-	-	23.006.660
Machinery, equipment and installations	73.826.184	3.530.571	(521.204)	-	76.835.551
Motor vehicles	3.370.231	314.676	(127.218)	-	3.557.689
Furniture and fixtures	14.123.773	630.095	(150.944)	-	14.602.924
Leasehold improvements	1.207.532	28.931	-	-	1.236.463
	115.971.440	6.548.533	(799.366)	-	121.720.607
Net book value	99.137.629				106.557.029

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

9. Property, plant and equipment (continued)

For the periods ended September 30, 2012 and September 30, 2011, the allocation of depreciation and amortization expenses of property, plant and equipment and intangibles has been as follows:

	September 30, 2012	September 30, 2011
Research and development expenses	**11.902.169**	8.194.291
General manufacturing costs	**4.656.114**	4.563.282
Costs related to uncompleted contracts	**3.095.336**	854.490
Development projects in process	**823.540**	849.408
General administrative expenses	**859.218**	795.541
Selling and marketing expenses	**440.739**	399.344
Total	**21.777.116**	15.656.356

As of September 30, 2012 and December 31, 2011, gross values of fully depreciated items which are still in use are as follows:

	September 30, 2012	December31, 2011
Machinery, equipment and installations	**58.583.472**	45.831.577
Motor vehicles	**2.599.588**	2.585.412
Furniture and fixtures	**11.941.260**	11.912.057
Leasehold improvements	**1.120.006**	1.094.646
	74.244.326	61.423.692

10. Intangible assets

For the period ended September 30, 2012, the movement of intangibles and accumulated amortization is as follows:

	January 1, 2012	**Additions**	**Transfers**	**September 30, 2012**
Cost:				
Other intangible assets	**7.958.897**	**915.795**	**-**	**8.874.692**
Development costs	**80.600.486**	**-**	**930.913**	**81.531.399**
Development projects in process	**9.081.096**	**28.942.024**	**(930.913)**	**37.092.207**
	97.640.479	**29.857.819**		**127.498.298**
Accumulated amortization:				
Other intangible assets	**5.423.475**	**1.059.129**	**-**	**6.482.604**
Development costs	**20.742.682**	**11.902.168**	**-**	**32.644.850**
	26.166.157	**12.961.297**		**39.127.454**
Net book value	**71.474.322**			**88.370.844**

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

10. Intangible assets (continued)

For the period ended September 30, 2011, the movement of intangibles and accumulated amortization is as follows:

	January 1, 2011	Additions	Transfers	September 30, 2011
Cost:				
Other intangible assets	6.768.208	767.579	-	7.535.787
Development costs	55.012.467	-	3.214.618	58.227.085
Development projects in process	7.299.830	18.137.595	(3.214.618)	22.222.807
	69.080.505	18.905.174	-	87.985.679
Accumulated amortization:				
Other intangible assets	4.186.143	913.532	-	5.099.675
Development costs	9.373.412	8.194.291	-	17.567.703
	13.559.555	9.107.823	-	22.667.378
Net book value	55.520.950			65.318.301

As of September 30, 2012 and December 31, 2011, the gross values of fully amortized intangible assets which are still in use are as follows:

	September 30, 2012	December 31, 2011
Other intangible assets	**3.018.142**	2.793.969
	3.018.142	2.793.969

11. Derivative financial instruments

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

			Fair values
	Contract amount	**Contract maturity**	**Liabilities**
September 30, 2012:			
Forward transactions	**184.680.000**	**October 31, 2012-December 31, 2012**	**6.408.994**
Short-term derivative financial instruments	**184.680.000**		**6.408.994**
Total derivative financial instruments	**184.680.000**		**6.408.994**

	Contract amount	Contract maturity	Assets
December 31, 2011:			
Forward transactions	208.525.910	January 11, 2012 – March 30, 2012	9.022.907
Short-term derivative financial instruments	208.525.910		9.022.907
Total derivative financial instruments	208.525.910		9.022.907

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

12. Provisions, contingent assets and liabilities

Provisions

	September 30, 2012	December 31, 2011
Provision for other cost (*)	**207.981.690**	183.334.944
Warranty provision	**18.662.880**	18.768.929
Provision for sales commission expenses	**5.974.049**	1.920.005
Provision for vacation pay liability	**3.105.387**	2.235.464
Provision for personnel premium	**5.175.000**	-
Other	**1.665.670**	200.000
	242.564.676	206.459.342

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

Commitments and contingencies

As of September 30, 2012 and December 31, 2011, the tables which represent the position of guarantees, pledges and mortgages are as follow:

Guarantees given by the Company	**September 30, 2012**	December 31, 2011
a. Total amount of guarantees, pledges and mortgages given in the name of legal entity	**588.673.109**	649.585.517
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	**588.673.109**	649.585.517

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

	September 30, 2012		December 31, 2011	
	Original currency	**TL**	Original currency	TL
U.S. Dollars	**285.504.461**	**509.539.812**	301.322.506	569.168.082
Euro	**13.836.293**	**31.941.081**	13.492.893	32.973.933
GBP	**9.192**	**26.596**	12.027	35.081
Turkish Lira	**47.165.620**	**47.165.620**	47.408.421	47.408.421
		588.673.109		649.585.517

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

12. Provisions, contingent assets and liabilities (continued)

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

Guarantee letters given	**September 30, 2012**	December 31, 2011
Under secretariat of Ministry of Defense	**406.069.636**	439.881.761
Other	**182.603.473**	209.703.756
	588.673.109	649.585.517

b) Guarantees received as of September 30, 2012 and December 31, 2011 is as follows:

	September 30, 2012	December 31, 2011
Bank letters of guarantee (*)	**287.323.330**	225.181.079
Guarantee notes	**60.589.874**	53.460.035
Mortgages received	**3.842.000**	3.842.000
Guarantee checks	**65.000**	-
	351.820.204	282.483.114

(*) Bank letters of guarantee amounting to TL157.849.513 are obtained from the sub-contractors for Altay Project (December 31, 2011 – TL116.160.705).

The case of tax deduction related to R&D discount for the R&D activities in 2010 has ended on behalf of the Company and TL 2.923.627 has been returned to the Company. For the same case of 2011, it is subject to legal case and not concluded yet. The expected return amount of 2011 is TL 3.963.320. There is no new legal case as of September 30, 2012 but the expected effective amount as of September 30 of the year is TL 3.443.896.

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

13. Other assets and liabilities

	September 30, 2012	December 31, 2011
a) Other current assets:		
Advances given	**149.609.606**	105.134.614
Value added tax receivables	**16.951.947**	25.754.551
Prepaid expenses	**2.119.215**	1.373.991
Other	**4.826.840**	1.442.035
Total	**173.507.608**	133.705.191
b) Other current liabilities:		
Social security premiums payable	**3.411.719**	2.476.644
Taxes and funds payable	**-**	5.253.198
Deferred special consumption tax	**104.964**	100.355
Other	**329.143**	403.778
Total	**3.845.826**	8.233.975

14. Sales and cost of sales

Net sales

	January 1 - September 30, 2012	**July 1 - September 30, 2012**	January 1 - September 30, 2011	July 1 - September 30, 2011
Domestic sales	**518.956.334**	**194.420.632**	491.778.214	174.635.664
Export sales	**152.153.302**	**41.446.620**	87.262.823	14.659.760
Gross sales	**671.109.636**	**235.867.252**	579.041.037	189.295.424
Less: Sales discounts and sales returns	**(425.457)**	**(384.157)**	(139.856)	(117.616)
Net sales	**670.684.179**	**235.483.095**	578.901.181	189.177.808

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

14. Sales and cost of sales (continued)

As of September 30, 2012 and September 30, 2011 a breakdown of net sales in terms of categories are as follows:

	January 1 - September 30, 2012	**July 1 - September 30, 2012**	January 1 - September 30, 2011	July 1 - September 30, 2011
Commercial vehicle	**327.000.296**	**114.956.567**	348.330.847	126.851.685
Armored vehicles	**197.956.091**	**70.421.999**	110.274.852	15.911.977
Other sales (*)	**145.727.792**	**50.104.529**	120.295.482	46.414.146
	670.684.179	**235.483.095**	578.901.181	189.177.808

(*) TL 83.201.929 of this amount is related to revenues of uncompleted contracts (September 30, 2011 – TL 70.528.846).

Cost of sales

	January 1 – September 30, 2012	**July 1 – September 30, 2012**	January 1 – September 30, 2011	July 1 – September 30, 2011
Cost of finished goods sold	**489.367.718**	**177.520.606**	445.532.927	153.259.993
Cost of merchandise sold	**29.823.090**	**7.501.277**	17.921.411	6.430.395
Cost of sales	**519.190.808**	**185.021.883**	463.454.338	159.690.388

15. Financial income

	January 1 – September 30, 2012	**July 1 – September 30, 2012**	January 1 – September 30, 2011	July 1 – September 30, 2011
Foreign exchange gains	**63.518.014**	**18.044.085**	42.503.521	14.023.003
Forward income	**20.290.361**	**3.434.926**	9.261.049	9.219.065
Term difference income related with sales	**10.871.443**	**3.298.883**	8.771.492	3.262.158
Interest income from time deposits	**989.276**	**156.552**	1.435.045	209.216
Foreign exchange gains on bank borrowings	**-**	**-**	132.000	-
Total	**95.669.094**	**24.934.446**	62.103.107	26.713.442

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

16. Financial expense

	January 1 – September 30, 2012	**July 1 – September 30, 2012**	January 1 – September 30, 2011	July 1 – September 30, 2011
Foreign exchange losses	**(67.708.641)**	**(12.885.761)**	(47.539.088)	(28.136.798)
Interest expense on bank borrowings	**(19.739.038)**	**(7.563.137)**	(10.011.207)	(4.085.753)
Forward expense	**(18.061.670)**	**(8.586.886)**	(7.895.375)	1.310.289
Foreign exchange losses on bank borrowings	**-**	**-**	(3.503.251)	-
Total	**(105.509.349)**	**(29.035.784)**	(68.948.921)	(30.912.262)

17. Tax assets and liabilities

The Company is subject to taxation in accordance with the tax regulation and the legislation effective in Turkey.

In Turkey, the corporation tax rate is 20% (2011 - %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 instalment by the end of the fourth month. The tax legislation provides for a temporary tax of 20% (2011 - 20%) to be calculated and paid based on earnings generated for each quarter. The amounts thus calculated and paid are offset against the final corporate tax liability for the year.

Corporate tax losses can be carried forward for a maximum period of 5 years following the year in which the losses were incurred. The tax authorities can inspect tax returns and the related accounting records for a retrospective maximum period of five years.

15% withholding applies to dividends distributed by resident real persons, those who are not liable to income and corporation tax, non-resident real persons, non-resident corporations (excluding those that acquire dividend through a permanent establishment or permanent representative in Turkey) and non-resident corporations exempted from income and corporation tax. Dividend distribution by resident corporations to resident corporations is not subject to a withholding tax. Furthermore, in the event the profit is not distributed or included in capital, no withholding tax shall be applicable.

Research and development incentive rate which will be calculated over the research and development expenditures, is raised to 100% from 40% with the amendment made to the 10th article of the Tax Law numbered 5520 as a result of the amendment in the 35th article of the Law 5746 related to the Support of Research and Development Operations. The aforementioned law has been enacted as of April 1, 2008. Accordingly, income tax-payers can deduct 100% of the expenditures made as of then, which are related to research and development related to new technology and information developments.

As a result of its research and development expenditures made in 2012 amounting to TL 28.254.263, the Company has utilized research and development incentives at 100% deduction without any withholding tax. The Company has an R&D center certificate.

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

17. Tax assets and liabilities (continued)

As of September 30, 2012 and December 31, 2011, income tax payables net off prepaid taxes presented in the balance sheet is as follows:

	September 30, 2012	December 31, 2011
Income tax payable	**9.194.168**	11.633.639
Prepaid tax	**-**	(8.543.854)
Income tax payable	**9.194.168**	3.089.785

The breakdown of total tax expense for the period ended September 30, 2012 and 2011 is as follows:

	January 1 – September 30, 2012	**July 1 – September 30, 2012**	January 1 – September 30, 2011	July 1 – September 30, 2011
Current tax charge	**(6.270.541)**	**(3.101.682)**	(9.095.471)	1.258.149
Deferred tax income/(expense)	**3.424.624**	**1.728.110**	5.440.155	(2.073.022)
Total tax expense	**(2.845.917)**	**(1.373.572)**	(3.655.316)	(814.873)

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

17. Tax assets and liabilities (continued)

As of September 30, 2012 and December 31, 2011, 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)**	
	September 30, 2012	December 31, 2011	**September 30, 2012**	December 31, 2011
Property, plant and equipment	**(9.018.424)**	(8.101.095)	**1.677.610**	1.861.076
Intangible assets	**(11.818.972)**	(12.721.283)	**(2.363.794)**	(2.544.257)
Deferred financial expense	**(321.834)**	(517.981)	**(64.367)**	(103.596)
Inventories	**(681)**	(325.962)	**(136)**	(65.192)
Warranty provision	**18.662.880**	18.768.929	**3.732.576**	3.753.786
Reserve for retirement pay	**12.823.990**	9.110.483	**2.564.798**	1.822.097
Deferred financial income	**3.142.242**	1.230.242	**628.448**	246.048
Other provisions	**16.864.598**	7.704.234	**3.372.919**	1.540.847
Adjustment for percentage of completion method on construction projects	**25.218.207**	38.906.026	**5.043.641**	7.781.205
Other	**7.406.405**	(8.218.310)	**1.481.281**	(1.643.662)
Deferred tax asset			**16.072.976**	12.648.352

The movement of deferred tax asset for the period ended September 30, 2012 and 2011 is as follows:

	September 30, 2012	September 30, 2011
At January 1	**12.648.352**	7.944.450
Deferred tax income	**3.424.624**	5.440.155
At September 30	**16.072.976**	13.384.605

18. Earnings per share

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

Companies can increase their share capital by making a pro rata distribution of shares (Bonus 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.

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

18. Earnings per share (continued)

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

	January 1 – September 30, 2012	**July 1 – September 30, 2012**	January 1 – September 30, 2011	July 1 – September 30, 2011
Net income attributable to shareholders (TL)	**53.401.249**	**16.467.944**	31.761.082	2.349.791
Weighted average number of issued shares	**24.000.000.000**	**24.000.000.000**	24.000.000.000	24.000.000.000
Earnings per share (kuruş)	**0,223**	**0,069**	0,132	0,010

Declared and approved share of profit for the year 2011 is as follows;

Based on General Assembly Meeting dated March 14, 2012, dividend distribution amounting to TL 48.000.000 was approved and dividend payments have been paid as of March 21, 2012.

19. Related party disclosures

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

i) Due from and due to related party balances as of September 30, 2012 and December 31, 2011:

Due from related parties	**September 30, 2012**	December 31, 2011
Ram Dış Ticaret A.Ş.(Ram Dış) (1) (*)	**35.043.617**	19.008.642
Otokar Europe SAS (2)	**331.739**	-
Ford Otosan A.Ş. (Ford) (1)	**82.078**	194.195
Zer Merkezi Hizmetler A.Ş. (Zer) (1)	**9.203**	-
Aygaz A.Ş. (Aygaz) (1)	**-**	6.135
Türk Traktör ve Ziraat Makineleri A.Ş. (Türk Traktör) (1)	**-**	572.854
RMK Marine Gemi Yapım San. Deniz Taş. İşl. A.Ş. (1)	**-**	80.538
Total	**35.466.637**	19.862.364

(1) Shareholders' subsidiary/ Business Associate
(2) Company's subsidiary

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

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

19. Related party disclosures (continued)

Due to related parties	September 30, 2012	December 31, 2011
Ram Dış (1)	**2.442.673**	900.459
Zer (1)	**290.619**	1.224.505
Akpa Dayanıklı Tük. Paz. A.Ş. (Akpa) (1)	**219.074**	407.759
Koçtaş Yapı Marketleri A.Ş. (Koçtaş) (1)	**159.857**	155.537
Koç Holding A.Ş. (2)	**158.323**	9.069
Opet Fuchs Madeni Yağ A.Ş. (Opet Fuchs) (1)	**146.580**	-
Setur Servis Turistik A.Ş. (Setur) (1)	**99.016**	461.095
Otokoç Otomotiv Tic. ve San. A.Ş. (Otokoç) (1)	**29.105**	103.623
Promena Elektronik Ticaret A.Ş. (Promena) (1)	**25.704**	17.336
KoçSistem Bilgi ve İletişim Hizm. A.Ş. (KoçSistem) (1)	**21.901**	621.707
Ram Sigorta Aracılık Hz. A.Ş. (Ram Sigorta) (1)	**21.101**	118.255
Arçelik A.Ş. (Arçelik) (1)	**7.094**	1.764
Türkiye Petrol Rafinerileri A.Ş. (Tüpraş) (1)	**1.026**	-
Ford (1)	**283**	-
Palmira Turizm Ticaret A.Ş. (1)	**100**	-
Ark İnşaat A.Ş. (1)	**-**	402.744
Opet Petrolcülük A.Ş. (Opet) (1)	**-**	67.702
Setair Hava Taşımacılığı ve Hizm. A.Ş. (1)	**-**	121.995
Aygaz Doğal Gaz Toptan Satış A.Ş. (Aygaz Doğalgaz) (1)	**-**	262.254
Otokar Europe SAS (3)	**-**	194.822
Tat Konserve San. A.Ş. (Tat Konserve) (1)	**-**	13.598
Vehbi Koç Vakfı Amerikan Hastanesi (Amerikan Hastanesi) (1)	**-**	1.918
Total	**3.622.456**	5.086.142

(1) Shareholder's subsidiary/ Business Associate
(2) Shareholder
(3) Company's subsidiary

Related party bank deposits and checks and notes in collection are as follows:

Bank deposits	September 30, 2012	December 31, 2011
Yapı ve Kredi Bankası A.Ş. (Yapı ve Kredi Bankası) (1)		
- Demand deposits	**1.354.880**	1.600.896
	1.354.880	1.600.896

Checks and notes in collection	September 30, 2012	December 31, 2011
Yapı ve Kredi Bankası (1)	**31.632.193**	45.089.091
	31.632.193	45.089.091

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

19. Related party disclosures (continued)

ii) Major sales and purchase transactions with related parties:

Product sales and service revenue	**January 1 - September 30, 2012**	**July 1 - September 30, 2012**	January 1 - September 30, 2011	July 1 - September 30, 2011
Ram Dış (1) (*)	**135.299.391**	**31.282.412**	28.160.757	11.182.528
Türk Traktör (1)	**5.356.107**	**1.821.878**	2.993.830	1.279.858
Zer (1)	**1.145.751**	**441.468**	958.985	514.432
Otokar Europe SAS (3)	**332.593**	**14.654**	-	-
Aygaz (1)	**246.198**	**16.198**	81.981	5.193
Ford (1)	**1.812**	**381**	1.270.458	1.270.268
Opet (1)	**-**	**-**	1.656	1.656
Total	**142.381.852**	**33.576.991**	33.467.667	14.253.935

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

Purchase of property, plant and equipment	**January 1 - September 30, 2012**	**July 1 - September 30, 2012**	January 1 - September 30, 2011	July 1 - September 30, 2011
Ark İnşaat (1)	**3.757.765**	**614.465**	-	-
Koç Sistem (1)	**1.477.119**	**816.162**	702.218	70.864
Zer (1)	**56.379**	**865**	47.424	19.228
Otokoç (1)	**39.789**	**-**	-	-
Arçelik (1)	**26.611**	**4.488**	17.214	9.611
Koçtaş (1)	**4.640**	**4.640**	-	-
Bilkom A.Ş. (1)	**-**	**-**	8.006	-
Koç.net Hbl.Tek.İlt.Hz.A.Ş. (Koçnet)(1)(**)	**-**	**-**	2.185	2.185
Total	**5.362.303**	**1.440.620**	777.047	101.888

Inventory purchases	**January 1 - September 30, 2012**	**July 1 - September 30, 2012**	January 1 - September 30, 2011	July 1 - September 30, 2011
Zer (1)	**6.561.044**	**2.013.919**	6.736.546	2.876.826
Ram Dış (1)	**5.182.089**	**2.181.762**	7.112.154	2.219.063
Akpa (1)	**2.141.412**	**647.242**	1.764.381	569.767
Koçtaş (1)	**681.253**	**239.137**	61.460	35.444
Türk Traktör (1)	**679.412**	**142.953**	521.918	521.918
Opet (1)	**591.081**	**219.575**	467.043	169.268
Opet Fuchs (1)	**443.996**	**212.822**	-	-
Arçelik (1)	**790**	**584**	533	534
Ford (1)	**240**	**152**	-	-
Aygaz Doğalgaz (1)	**-**	**-**	838.652	112.292
Total	**16.281.317**	**5.658.146**	17.502.687	6.505.112

(1) Shareholder's subsidiary/ Business Associate
(2) Shareholder
(3) Company's subsidiary

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

19. Related party disclosures (continued)

Services received	January 1 - September 30, 2012	July 1 - September 30, 2012	January 1 - September 30, 2011	July 1 - September 30, 2011
Ram Dış (1)	**4.579.670**	**1.290.592**	602.503	78.443
Setur (1)	**2.507.587**	**406.005**	1.564.829	533.777
Koç Holding A.Ş. (2)	**948.917**	**331.417**	733.082	191.783
Otokoç (1)	**866.338**	**229.175**	457.225	136.583
Otokar Europe SAS (3)	**835.943**	**209.504**	-	-
KoçSistem (1)	**529.218**	**166.664**	444.022	162.735
Promena (1)	**111.042**	**64.270**	103.013	56.992
Koç Üniversitesi (1)	**51.571**	**12.044**	179.026	31.826
Setair Hava Taş. ve Hizm. A.Ş. (1)	**37.162**	**12.612**	21.355	-
Ram Sigorta (1) (*)	**33.887**	**1.886**	843.959	244.045
Yapı Kredi Sigorta A.Ş. (1)	**17.146**	**-**	23.520	-
Palmira Turizm Ticaret A.Ş. (1)	**7.131**	**505**	4.338	74
Bilkom A.Ş. (1)	**1.152**	**-**	1.444	-
Rahmi Koç Vakfı Müzesi (1)	**694**	**-**	-	-
Eltek Elektrik Enerji A.Ş. (1)	**-**	**-**	1.690.458	-
Koç.net (1) (**)	**-**	**-**	219.317	86.250
Platform	**-**	**-**	152.388	152.388
Amerikan Hastanesi (1)	**-**	**-**	12.480	10.722
Total	**10.527.458**	**2.724.674**	7.052.959	1.685.618

(*) It includes paid and accrued premium as of September 30, 2012 in accordance with insurance policies signed between insurance companies via Ram Sigorta Aracılık Hizmetleri A.Ş. which is an insurance agency.

(**) It includes the services received before November 30, 2011 because Koç.net Hbl.Tek.İlt. Hz. A.Ş. has been sold to a third party which is not a related party of the company at November 30, 2011.

Financial income and expense with related parties:

Interest income	January 1 – September 30, 2012	July 1 – September 30 2012	January 1- September 30, 2011	July 1 – September 30, 2011
Yapı ve Kredi Bankası (1)	**242.164**	**91.019**	199.236	109.117
Total	**242.164**	**91.019**	199.236	109.117

Foreign exchange gains	January 1 - September 30 2012	July 1 - September 30 2012	January 1 - September 30 2011	July 1 - September 30 2011
Ram Dış (1)	**9.280.777**	**93.336**	5.893.136	1.614.077
Yapı ve Kredi Bankası (1)	**322.356**	**66.441**	236.145	34.268
Other (1)	**8.649**	**1.536**	-	-
Total	**9.611.782**	**161.313**	6.129.281	1.648.345

(1) Shareholder's subsidiary/ Business Associate
(2) Shareholder
(3) Company's subsidiary

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

19. Related party disclosures (continued)

Foreign exchange losses	**January 1 - September 30, 2012**	**July 1 - September 30, 2012**	January 1 - September 30, 2011	July 1 - September 30, 2011
Ram Dış (1)	**5.333.109**	**364.539**	7.360.253	2.854.737
Yapı ve Kredi Bankası (1)	**1.408.867**	**182.249**	1.307.565	292.966
Other (1)	**1.602**	**161**	409	323
Total	**6.743.578**	**546.949**	8.668.227	3.148.026

Forward losses	**January 1 - September 30, 2012**	**July 1 - September 30, 2012**	January 1 - September 30, 2011	July 1 - September 30, 2011
Yapı ve Kredi Bankası (1)	**(21.000)**	**-**	-	-
Total	**(21.000)**	**-**	**-**	**-**

Interest expense	**January 1 - September 30, 2012**	**July 1 - September 30, 2012**	January 1 - September 30, 2011	July 1 - September 30, 2011
Yapı ve Kredi Bankası (1)	**12.543**	**12.533**	89.140	11.660
Total	**12.543**	**12.533**	89.140	11.660

Benefits provided to executives

Salaries and similar benefits provided to the executive management by the Company for the period ended September 30, 2012 amounted to TL 2.455.673 (September 30, 2011 – TL 2.042.858). The executive management consists of board members, general managers and vice general managers.

20. Nature and level of risks arising from financial instruments

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

Market risk

a) Foreign currency risk and related sensitivity analysis

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

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

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

The accompanying table represents the foreign currency risk of the Company as of September 30, 2012;

					Table of foreign currency position
					September 30, 2012
		TL equivalent (functional currency)	USD	EUR	GBP
1.	Trade receivables	216.585.727	44.279.187	58.755.938	664.425
2a.	Monetary financial assets (including cash, Bank accounts)	159.826.051	80.594.390	6.798.443	101.962
2b.	Non-monetary financial assets	-	-	-	-
3.	Other	-	-	-	-
4.	**Current assets (1+2+3)**	**376.411.778**	**124.873.577**	**65.554.381**	**766.387**
5.	Trade receivables	60.033.506	-	26.005.418	-
6a.	Monetary financial assets	-	-	-	-
6b.	Non-monetary financial assets	-	-	-	-
7.	Other	-	-	-	-
8.	**Non-current assets (5+6+7)**	**60.033.506**	**-**	**26.005.418**	**-**
9.	**Total assets(4+8)**	**436.445.284**	**124.873.577**	**91.559.799**	**766.387**
10.	Trade payables	(24.673.538)	(4.678.029)	(6.096.237)	(778.095)
11.	Financial liabilities	-	-	-	-
12a.	Monetary other liabilities	(404.128.064)	(226.293.636)	(113.412)	-
12b.	Non-monetary other liabilities	-	-	-	-
13.	**Current liabilities (10+11+12)**	**(428.801.602)**	**(230.971.665)**	**(6.209.649)**	**(778.095)**
14.	Trade payables	-	-	-	-
15.	Financial liabilities	-	-	-	-
16a.	Monetary other liabilities	-	-	-	-
16b.	Non-monetary other liabilities	-	-	-	-
17.	**Non-current liabilities (14+15+16)**	**-**	**-**	**-**	**-**
18.	**Total liabilities (13+17)**	**(428.801.602)**	**(230.971.665)**	**(6.209.649)**	**(778.095)**
19.	Net asset/(liability) position of off-balance sheet derivative instruments(19a-19b)	(6.408.994)	99.888.500	(80.000.000)	-
19a.	Hedged total assets amount	178.271.006	99.888.500	-	-
19b.	Hedged total liabilities amount	(184.680.000)	-	(80.000.000)	-
20.	**Net foreign currency asset/(liability) position (9+18+19)**	**1.234.688**	**(6.209.588)**	**5.350.150**	**(11.708)**
21.	**Net foreign currency asset/(liability) position of monetary items (=1+2a+5+6a-10-11-12a-14-15-16a)**	**7.643.682**	**(106.098.088)**	**85.350.150**	**(11.708)**
22.	Total fair value of financial instruments used for foreign currency hedging	**(6.408.994)**	**99.888.500**	**80.000.000**	**-**
23.	Export	152.150.988	60.982.488	18.954.696	979.719
24.	Import	254.610.698	64.284.060	56.317.255	3.409.612

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

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

					Table of foreign currency position
					December 31, 2011
		TL equivalent (functional currency)	USD	EUR	GBP
1.	Trade receivables	174.028.497	23.283.527	53.135.721	66.907
2a.	Monetary financial assets (including cash, bank accounts)	109.497.977	48.360.657	7.377.015	41.680
2b.	Non-monetary financial assets	-	-	-	-
3.	Other	-	-	-	-
4.	**Current assets (1+2+3)**	**283.526.474**	**71.644.184**	**60.512.736**	**108.587**
5.	Trade receivables	81.455.466	-	33.331.478	-
6a.	Monetary financial assets	-	-	-	-
6b.	Non-monetary financial assets	-	-	-	-
7.	Other	-	-	-	-
8.	**Non-current assets (5+6+7)**	**81.455.466**	**-**	**33.331.478**	**-**
9.	**Total assets(4+8)**	**364.981.940**	**71.644.184**	**93.844.214**	**108.587**
10.	Trade payables	(31.669.169)	(3.534.468)	(6.277.392)	(3.308.955)
11.	Financial liabilities	-	-	-	-
12a.	Monetary other liabilities	(331.684.237)	(175.426.410)	(131.472)	-
12b.	Non-monetary other liabilities	-	-	-	-
13.	**Current liabilities (10+11+12)**	**(363.353.406)**	**(178.960.878)**	**(6.408.864)**	**(3.308.955)**
14.	Trade payables	-	-	-	-
15.	Financial liabilities	-	-	-	-
16a.	Monetary other liabilities	-	-	-	-
16b.	Non-monetary other liabilities	-	-	-	-
17.	**Non-current liabilities (14+15+16)**	**-**	**-**	**-**	**-**
18.	**Total liabilities (13+17)**	**(363.353.406)**	**(178.960.878)**	**(6.408.864)**	**(3.308.955)**
19.	Net asset/(liability) position of off-balance sheet derivative instruments(19a-19b)	9.022.907	110.153.300	(85.328.550)	3.250.000
19a.	Hedged total assets amount	217.548.819	110.153.300	-	3.250.000
19b.	Hedged total liabilities amount	(208.525.912)	-	(85.328.550)	-
20.	**Net foreign currency asset/(liability) position (9+18+19)**	**10.651.441**	**2.836.606**	**2.106.800**	**49.632**
21.	**Net foreign currency asset/(liability) position of monetary items (=1+2a+5+6a-10-11-12a-14-15-16a)**	**1.628.534**	**(107.316.694)**	**87.435.350**	**(3.200.368)**
22.	Total fair value of financial instruments used for foreign currency hedging	9.022.907	110.153.300	(85.328.550)	3.250.000
23.	Export (As of September 30, 2011)	87.261.645	34.939.673	14.422.648	126.611
24.	Import (As of September 30, 2011)	239.940.331	50.223.252	60.116.001	7.118.190

The table of foreign currency position as of December 31, 2011 is revised in order to be consistent with the table of foreign currency position as of September 30, 2012.

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

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

The following table demonstrates the sensitivity to a possible change of 10% in the USD, Euro and GBP exchange rates, with all other variables held constant, on the Company's income before tax as of September 30, 2012 and December 31, 2011:

		Exchange rate sensitivity analysis table	
			September 30, 2012
		Profit/(loss) before tax	**Profit/(loss) before tax**
		Appreciation of foreign currency	**Depreciation of foreign currency**
	In case 10% appreciation of USD against TL:		
1-	USD net asset/liability	**(18.935.326)**	**18.935.326**
2-	Amount hedged for USD risk (-)		
3-	**USD net effect (1+2)**	**(18.935.326)**	**18.935.326**
	In case 10% appreciation of EUR against TL:		
4-	EUR net asset/liability	**19.703.082**	**(19.703.082)**
5-	Amount hedged for EUR risk (-)		
6-	**EUR net effect (4+5)**	**19.703.082**	**(19.703.082)**
	In case 10% appreciation of GBP against TL:		
7-	GBP net asset/liability	**(3.388)**	**3.388**
8-	Amount hedged for GBP risk (-)		
9-	**GBP net effect (7+8)**	**(3.388)**	**3.388**
	Total (3+6+9)	**764.368**	**(764.368)**

		Exchange rate sensitivity analysis table	
			December 31, 2011
		Profit/(loss) before tax	Profit/(loss) before tax
		Appreciation of foreign currency	Appreciation of foreign currency
	In case 10% appreciation of USD against TL:		
1-	USD net asset/liability	(20.271.050)	20.271.050
2-	Amount hedged for USD risk (-)	-	-
3-	**USD net effect (1+2)**	(20.271.050)	20.271.050
	In case 10% appreciation of EUR against TL:		
4-	EUR net asset/liability	21.367.451	(21.367.451)
5-	Amount hedged for EUR risk (-)	-	-
6-	**EUR net effect (4+5)**	21.367.451	(21.367.451)
	In case 10% appreciation of GBP against TL:		
7-	GBP net asset/liability	(933.547)	933.547
8-	Amount hedged for GBP risk (-)	-	-
9-	**GBP net effect (7+8)**	(933.547)	933.547
	Total (3+6+9)	162.854	(162.854)

The exchange rate sensitivity table as of December 31, 2011 is revised in order to be consistent with the exchange rate sensitivity table as of September 30, 2012.

21. Subsequent events

None.