

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

**CONVENIENCE TRANSLATION INTO ENGLISH OF
CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE INTERIM PERIOD 1 JANUARY - 30 SEPTEMBER 2016**

(ORIGINALLY ISSUED IN TURKISH)

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

**CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE PERIOD 1 JANUARY - 30 SEPTEMBER 2016**

CONTENTS	PAGES
CONSOLIDATED BALANCE SHEET.....	1-2
CONSOLIDATED STATEMENTS OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME.....	3
CONSOLIDATED STATEMENT OF CHANGE IN EQUITY	4
CONSOLIDATED STATEMENT OF CASH FLOWS	5
NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS ..	6-38

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

CONSOLIDATED BALANCE SHEET AS OF 30 SEPTEMBER 2016

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

	Notes	(Not Audited) 30 September 2016	(Audited) 31 December 2015
Assets			
Current assets			
Cash and cash equivalents	4	19.807.311	58.736.065
Trade receivables	7	381.559.548	344.453.922
<i>Due from related parties</i>	21	18.554.657	106.906.185
<i>Due from other parties</i>	7	363.004.891	237.547.737
Other receivables		492.352	2.090
Due from customers on contract works	9	237.981.850	-
Inventories	8	523.038.942	427.975.544
Derivative financial instruments	6	135.400	146.636
Prepaid expenses	13	179.781.912	122.691.548
Other current assets	13	108.889.334	65.687.162
Total current assets		1.451.686.649	1.019.692.967
Non-current assets			
Trade receivables, third parties	7	57.790.722	100.295.845
Other receivables, third parties		205.725	65.853
Due from customers on contract works	9	-	188.278.141
Financial investments		41.398	239.280
Property, plant and equipment	10	102.656.333	103.757.339
Intangibles	11	170.439.594	155.419.078
Deferred tax asset	19	29.805.403	37.313.671
Total non-current assets		360.939.175	585.369.207
Total assets		1.812.625.824	1.605.062.174

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

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

CONSOLIDATED BALANCE SHEET AS OF 30 SEPTEMBER 2016

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

	Notes	(Not Audited) 30 September 2016	(Audited) 31 December 2015
Liabilities			
Current liabilities			
Short-term financial liabilities	5	204.073.033	375.402
Short-term portion of long-term	5	82.247.181	105.607.359
Trade payables	7	111.949.055	165.819.465
<i>Due to related parties</i>	21	4.326.662	27.169.350
<i>Due to others</i>	7	107.622.393	138.650.115
Employee benefit obligations	13	5.925.064	18.137.584
Other payables, third parties		43.396.680	36.228.439
Current income tax liabilities	19	-	2.093.694
Deferred income	13	187.232.810	176.292.725
Government grants		2.050.199	2.056.306
Short-term provisions	12	362.084.463	276.300.155
Provisions for employee benefits		8.107.271	6.651.542
Other provisions		353.977.192	269.648.613
Other current liabilities	13	822.579	1.978.569
Total current liabilities		999.781.064	784.889.698
Non-current liabilities			
Financial liabilities	5	554.554.750	509.295.075
Government grants		4.072.784	5.570.470
Long-term provisions	12	35.160.793	31.755.416
Provision for employee benefits		26.061.231	22.321.490
Other provisions		9.099.562	9.433.926
Deferred income	13	12.628.206	28.312.416
Total non-current liabilities		606.416.533	574.933.377
Total liabilities		1.606.197.597	1.359.823.075
Equity			
Paid-in share capital		24.000.000	24.000.000
Inflation adjustment on share capital		52.743.030	52.743.030
Restricted reserves		54.014.610	46.838.147
Accumulated other comprehensive income and expense that will not be reclassified to statement of profit or loss		(3.820.860)	(3.859.283)
<i>Defined benefit plans re-measurements gains (losses)</i>		(3.820.860)	(3.859.283)
Accumulated other comprehensive income and expense that may be reclassified to statement of profit or loss		276.017	-
<i>Currency translation differences</i>		276.017	-
Retained earnings		46.131.822	46.011.054
Net profit for the period		33.083.608	79.506.151
Total equity		206.428.227	245.239.099
Total liabilities and equity		1.812.625.824	1.605.062.174

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

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

CONSOLIDATED BALANCE SHEET AS OF 30 SEPTEMBER 2016

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

	Notes	Not Audited		Not Audited	
		1 January - 30 September 2016	1 July - 30 September 2016	1 January - 30 September 2015	1 July - 30 September 2015
Net Sales	14	1.118.838.256	425.167.983	888.934.594	345.112.655
Cost of Sales (-)	14	(842.310.863)	(323.637.697)	(677.295.817)	(256.745.962)
GROSS PROFIT		276.527.393	101.530.286	211.638.777	88.366.693
Marketing expenses (-)	15	(127.027.993)	(41.150.552)	(115.732.562)	(41.420.949)
General administrative expenses (-)	15	(44.294.013)	(15.253.907)	(33.825.496)	(9.843.626)
Research and development expenses (-)	15	(25.885.830)	(9.643.365)	(26.204.024)	(9.007.239)
Other operating income	16	103.190.787	72.705.782	112.286.243	73.672.354
Other operating expenses (-)	16	(78.599.485)	(59.279.828)	(83.237.008)	(50.773.859)
OPERATING PROFIT		103.910.859	48.908.416	64.925.930	50.993.374
Income from investing activities		34.584	22.846	1.471.873	37.390
Expense from investing activities (-)		-	-	-	-
OPERATING INCOME BEFORE FINANCIAL EXPENSES		103.945.443	48.931.262	66.397.803	51.030.764
Financial income	17	12.980.716	8.314.385	4.802.607	85.362
Financial expense (-)	18	(78.631.937)	(37.642.676)	(55.396.241)	(30.813.048)
INCOME/(LOSS) BEFORE TAX		38.294.222	19.602.971	15.804.169	20.303.078
Tax income/expense from continued operations					
Current tax income/(expense)	19	2.288.048	-	(4.739.258)	(4.383.200)
Deferred tax (expense)/income	19	(7.498.662)	(2.257.679)	5.457.269	598.463
PROFIT FOR THE PERIOD		33.083.608	17.345.292	16.522.180	16.518.341
Items that will not be reclassified to statement of profit or loss					
Remeasurement (losses)/gains on defined benefit plans		48.029	157.352	(694.295)	23.778
Deferred tax income/(expense)		(9.606)	(31.471)	138.859	(4.756)
Items that may be reclassified to statement of profit or loss					
Currency translation differences		338.807	392.863	-	-
Other comprehensive income/(loss)		377.230	518.744	(555.436)	19.022
Total comprehensive income/(loss)		33.460.838	17.864.036	15.966.744	16.537.363
Earnings per share (Piaster)	20	0,138	0,072	0,069	0,069

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

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD 1 JANUARY - 30 SEPTEMBER 2016

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

		Paid in share capital	Inflation adjustments	Restricted reserves	Accumulated other comprehensive income and expense that will not be reclassified to statement of profit or loss)	Accumulated other comprehensive income and expense that may be reclassified to statement of profit or loss	Retained earnings	Net income for the period	Total equity
					Remeasurement losses on defined benefit plans	Currency translation differences			
Previous Period	Opening Balances	24.000.000	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	-	-	-	(555.436)	-	-	16.522.180	15.966.744
	Closing Balances	24.000.000	52.743.030	46.838.147	(5.820.291)	-	46.011.054	16.522.180	180.294.120
Current Period	Opening Balances	24.000.000	52.743.030	46.838.147	(3.859.283)	-	46.011.054	79.506.151	245.239.099
	Subsidiary subject to consolidation (Note 1)	-	-	96.463	-	(62.790)	(2.715.274)	2.409.891	(271.710)
	Recompensed Opening Balances	24.000.000	52.743.030	46.934.610	(3.859.283)	(62.790)	43.295.780	81.916.042	244.967.389
	Transfers	-	-	7.080.000	-	-	74.836.042	(81.916.042)	-
	Dividends paid	-	-	-	-	-	(72.000.000)	-	(72.000.000)
Total comprehensive income	-	-	-	38.423	338.807	-	33.083.608	33.460.838	
	Closing Balances	24.000.000	52.743.030	54.014.610	(3.820.860)	276.017	46.131.822	33.083.608	206.428.227

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

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE PERIOD 1 JANUARY – 30 SEPTEMBER 2016

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

	Notes	(Not Audited) 1 January – 30 September 2016	(Not Audited) 1 January – 30 September 2015
CASH FLOWS FROM OPERATING ACTIVITIES		(83.936.574)	(66.337.696)
Net profit for the period		33.083.608	16.522.180
Adjustments to reconcile income before taxes to net cash flows from operating activities:		130.676.421	110.973.117
Depreciation and amortization	10, 11	36.162.402	35.775.218
Adjustments in relation to impairment:		758.619	3.921.160
- Provision for doubtful receivables	7	1.202.114	4.649.511
- Provision for inventories	8	(443.495)	(728.351)
Adjustments in relation to provision:		29.597.648	38.526.074
- Provision for employee benefits	12	6.409.251	5.568.191
- Warranty provision expenses	12	23.188.397	32.957.883
Adjustments in relation to interest income and expenses:		56.677.030	25.610.160
- Interest income on time deposits	17	(249.852)	(616.544)
- Interest expense on borrowings	18	56.926.882	26.226.704
Adjustments in relation to unrealised foreign exchange gains and losses		6.761.850	15.109.340
Adjustments in relation to fair value gains and losses		753.456	(6.496.962)
- Fair value losses/(gains) on financial derivative instruments, net		753.456	(6.496.962)
Adjustments in relation to gains or losses on sales of property, plant and equipment		(34.584)	(1.471.873)
- Gain on sale of property, plant and equipments		(34.584)	(1.471.873)
Changes in net working capital		(224.823.405)	(163.347.166)
Change in trade receivables		(6.577.869)	(35.401.850)
Change in due from customers on contract works		(49.703.709)	(58.487.809)
Change in inventories		(85.722.730)	(109.200.259)
Change in trade payables		(56.649.527)	57.454.805
Other changes		(26.169.570)	(17.712.053)
- Changes in other operating assets		(100.707.394)	(101.649.689)
- Changes in other operating liabilities		74.537.824	83.937.636
Cash flows from operations		(61.063.376)	(35.851.869)
Payments in relation to employee benefits	12	(2.621.481)	(3.184.698)
Payments in relation to other provisions	12	(21.797.545)	(30.770.563)
Deductions/(payments) in relation to income tax		2.288.048	(4.739.258)
Other cash collections/(payments)		(742.220)	8.208.692
CASH FLOWS FROM INVESTING ACTIVITIES		(49.712.938)	(33.064.317)
Cash outflows from purchases due to obtaining control of subsidiaries		(41.398)	-
Proceeds from sale of property, plant and equipment and intangible assets		520.940	2.847.677
- Proceeds from sale of property, plant and equipment		520.940	2.847.677
Cash outflows due to purchase of property, plant and equipment and intangible assets		(50.192.480)	(35.911.994)
- Purchase of property, plant and equipment	10	(8.653.632)	(4.037.822)
- Purchase of intangible assets	11	(41.538.848)	(31.874.172)
CASH FLOWS FROM FINANCING ACTIVITIES		90.158.250	104.443.370
Cash inflow due to borrowings		863.485.399	504.751.487
- Proceeds from bank borrowings		863.485.399	504.751.487
Cash outflow due to repayment of borrowings		(660.624.836)	(310.816.148)
- Repayments of borrowings		(660.624.836)	(310.816.148)
Dividends paid		(72.000.000)	(80.000.000)
Interest paid		(40.952.165)	(10.108.513)
Interest received		249.852	616.544
NET DECREASE IN CASH AND CASH EQUIVALENTS BEFORE THE EFFECT OF CURRENCY TRANSLATION DIFFERENCES		(43.491.262)	5.041.357
Currency translation difference on cash and cash equivalents		338.807	-
NET DECREASE IN CASH AND CASH EQUIVALENTS		(43.152.455)	5.041.357
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	19.807.311	49.569.054

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

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS AT 30 SEPTEMBER 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 registered addresses of the Company are as follows:

Headquarters:

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

Plant:

Atatürk Cad. No: 6
54580 Arifiye / Sakarya

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

Legal Name	Nature of operations	Country	Capital	Ownership (%)
Otokar Europe SAS	Trade	France	Euro 100.000 (239.280 TL)	100,00

In prior years, “Otokar Europe SAS” operations did not materially affect the financial statements of Otokar and accordingly; it had not been subject to consolidation and had been presented at historical cost value under financial investments. Since the magnitude of the operations of Otokar Europe SAS has reached to have material impact on the financial statements of the Company, Otokar has started to consolidate Otokar Europe SAS by the beginning of this year and prepared consolidated financial statements at 30 September 2016.

On 13 April 2016, the Company management has decided to initiate the establishment of a subsidiary named “Otokar Land Systems LLC” in United Arab Emirates with the capital of Arab Emirates Dirham (“AED”) 50.000, due to organizing of export activities and augmentation of foreign sales especially on these regions. The establishment process was finalised as of the date of this consolidated financial statements. Since financial activities of Otokar Land System LLC is not started, it has been presented under financial investments.

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

The Group has 2.594 personnel as of 30 September 2016 (31 December 2015: 2.105).

Condensed consolidated interim financial statements for the period ended 30 September 2016 were authorized for issue and signed with the approval of the Internal Audit Committee by the Board of Directors of the Company on 3 November 2016. The accompanying condensed consolidated interim financial statements may be amended by the Board of Directors and General Assembly.

Otokar is registered to the Capital Market Board (“CMB”) and its shares are listed on the Borsa Istanbul A.Ş. (“BIST”), since 1995. As of 30 September 2016 the shares quoted on the BIST are 27,45% of the total shares.

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS AT 30 SEPTEMBER 2016

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

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

As of 30 September 2016, the principal shareholders and their respective shareholding percentages are as follows:

	(%)
Koç Holding A.Ş.	44,68
Ünver Holding A.Ş.	24,81
Publicly traded	27,45
Other	3,06
	100,00

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

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

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

NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

2.1 Basis of Presentation

The 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 was published on Official Gazette numbered as 28676.

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

The 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.

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS AT 30 SEPTEMBER 2016

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

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

In accordance with the CMB's resolution dated 17 March 2005 and numbered 11/367, the condensed consolidated financial statements were restated in accordance with International Accounting Standards (IAS) 29 (Financial Reporting in Hyperinflationary Economies) for the last time as of 31 December 2004, since the objective conditions which require the application of restatement of financial statements have not been realized and that based on the existing data CMB has foreseen that the indications whether such conditions are going to be realized in the future is no longer probable. Therefore, non-monetary assets, liabilities and equity items including the share capital as of 30 September 2016 and 31 December 2015 have been restated by applying the relevant conversion factors through 31 December 2004 and carrying additions after 31 December 2004 at their nominal values.

2.2 Group accounting

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

Subsidiaries

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

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

Disposal of a subsidiary

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

2.3 Significant changes in accounting estimates and errors

Correction of significant accounting errors are applied retrospectively and prior period financial statements are restated. If changes in accounting estimates are related to only one period, they are recognised in the period when changes are made; if changes in estimates are related to future periods, they are recognised both in the period where the change is applied and future periods prospectively.

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS AT 30 SEPTEMBER 2016

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

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

2.4 Changes in accounting policies

The Group can change its accounting policies if the change will provide fair presentation of the consolidated financial position, financial performance and cash flows of the Group.

Significant changes in accounting policies and correction of significant accounting errors are applied retrospectively and prior period financial statements are restated. Change of accounting policies due to adoption of a new standard are applied either prospectively or retrospectively depending on the terms determined by the new standard. In case of non-existence of a transition term, the new standard is applied retrospectively.

2.5 Changes in standards and interpretations

As at 30 September 2016, the accounting policies adopted in preparation of the financial statements as at 31 December 2015 are consistent with those of the previous financial year, except for the adoption of new and amended TFRS and TFRIC interpretations effective as of 1 July 2016. The effects of these standards and interpretations on the Company’s financial position and performance have been disclosed in the related paragraphs.

The following changes in the standards did not have significant impact on the consolidated financial statements of the Group:

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

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS AT 30 SEPTEMBER 2016

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

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

- 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.
- 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.
- 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

b. Standards, amendments and interpretations effective after 30 September 2016:

- Amendments to IAS 7 ‘Statement of cash flows’ on disclosure initiative, effective from annual periods beginning on or after 1 January 2017. These amendments introduce an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities. The amendment is part of the IASB’s Disclosure Initiative, which continues to explore how financial statement disclosure can be improved.
- Amendments IAS 12 ‘Income Taxes’, effective from annual periods beginning on or after 1 January 2017. The amendments clarify the accounting for deferred tax where an asset is measured at fair value and that fair value is below the asset’s tax base. It also clarifies certain other aspects of accounting for deferred tax assets.

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS AT 30 SEPTEMBER 2016

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

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

- Amendments to IFRS 2, ‘Share based payments’ on clarifying how to account for certain types of share-based payment transactions, effective from annual periods beginning on or after 1 January 2018. This amendment clarifies the measurement basis for cash-settled, share-based payments and the accounting for modifications that change an award from cash-settled to equity-settled. It also introduces an exception to the principles in IFRS 2 that will require an award to be treated as if it was wholly equity-settled, where an employer is obliged to withhold an amount for the employee’s tax obligation associated with a share-based payment and pay that amount to the tax authority.
- IFRS 15 ‘Revenue from contracts with customers’, effective from annual periods beginning on or after 1 January 2018. IFRS 15, ‘Revenue from contracts with customers’ is a converged standard from the IASB and FASB on revenue recognition. The standard will improve the financial reporting of revenue and improve comparability of the top line in financial statements globally.
- Amendment to IFRS 15, ‘Revenue from contracts with customers’, effective from annual periods beginning on or after 1 January 2018. These amendments comprise clarifications of the guidance on identifying performance obligations, accounting for licences of intellectual property and the principal versus agent assessment (gross versus net revenue presentation). New and amended illustrative examples have been added for each of those areas of guidance. The IASB has also included additional practical expedients related to transition to the new revenue standard.
- IFRS 9 ‘Financial instruments’, effective from annual periods beginning on or after 1 January 2018. This standard replaces the guidance in IAS 39. It includes requirements on the classification and measurement of financial assets and liabilities; it also includes an expected credit losses model that replaces the current incurred loss impairment model.
- IFRS 16 ‘Leases’, effective from annual periods beginning on or after 1 January 2019, This standard replaces the current guidance in IAS 17 and is a far-reaching change in accounting by lessees in particular. Under IAS 17, lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 16 now requires lessees to recognise a lease liability reflecting future lease payments and a ‘right-of-use asset’ for virtually all lease contracts. The IASB has included an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees. For lessors, the accounting stays almost the same. However, as the IASB has updated the guidance on the definition of a lease (as well as the guidance on the combination and separation of contracts), lessors will also be affected by the new standard. At the very least, the new accounting model for lessees is expected to impact negotiations between lessors and lessees. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS AT 30 SEPTEMBER 2016

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

NOTE 3 - SEGMENT REPORTING

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

Since the Chief Operations Decision Maker does not monitor cost of sales, operating expenses and financial expenses by product groups except for revenue, segment reporting is not applicable for the Group.

NOTE 4 - CASH AND CASH EQUIVALENTS

	30 September 2016	31 December 2015
Banks		
- demand deposits	6.689.714	15.239
- time deposits	12.142.570	56.506.362
Cheques and notes receivable	904.800	2.119.198
Other	70.227	95.266
	19.807.311	58.736.065

As of 30 September 2016, TL 12.142.570 of time deposits is denominated in foreign currency and its effective annual interest rate is 0,18% and has a maturity of 3 day.

As of 31 December 2015, TL 27.326.362 of time deposits is denominated in foreign currency and its effective annual interest rate is 0,24% and has a maturity of 4 days. Remaining balance of TL 29.180.000 of time deposits' effective annual interest rate is 14,05% and has a maturity of 4 days.

Checks and notes received consist of checks and notes which are due as of balance sheet date and are given to banks for collections.

As of 30 September 2016, the Group has restricted bank deposit amounting to TL 795 (31 December 2015: TL 795).

NOTE 5 - BORROWINGS

	Maturities	Interest rate (%)	30 September 2016 TL
Short-term bank borrowings (*)			
Denominated in TL	3 October 2016- 29 September 2017	0,00-12,34	139.632.340
Denominated in USD	3 October 2016	2,60	8.987.664
Denominated in EUR	3 October 2016- 21 September 2017	2,00-2,65	55.453.029
			204.073.033
Principals and interest accruals on the short-term portion of long-term borrowings (*)			
Denominated in TL		12,34-15,70	48.677.238
Denominated in EUR		2,65-2,90	33.569.943
			82.247.181

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS AT 30 SEPTEMBER 2016

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

NOTE 5 - BORROWINGS (Continued)

	Maturities	Interest rate (%)	30 September 2016 TL
Long-term bank borrowings (*) (**)			
Denominated in TL	21 December 2017- 7 September 2018	12,60-15,70	487.338.750
Denominated in EUR	28 September 2018	2,90	67.216.000
			554.554.750

(*) Bearing fixed interest rate.

(**) Weighted average maturity days of long-term borrowings are 621 days.

	Maturities	Interest rate (%)	31 December 2015 TL
Short-term bank borrowings (*)			
Denominated in TL (***)	4 January 2016	0,00	375.402
			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
			105.607.359

	Maturities	Interest rate (%)	31 December 2015 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
			509.295.075

(*) Bearing fixed interest rate.

(**) Weighted average maturity days of long-term borrowings are 730 days.

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

As of 30 September 2016, the Group has not provided any guarantees for the borrowings (31 December 2015: none).

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS AT 30 SEPTEMBER 2016

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

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 Assets
30 September 2016:			
Forward transactions	50.357.600	06 October 2016	135.400
Short-term derivative financial instruments	50.357.600		135.400
Total derivative financial instruments	50.357.600		135.400
	Contract amount	Previous 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

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS AT 30 SEPTEMBER 2016

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

NOTE 7 - TRADE RECEIVABLES AND PAYABLES

Trade receivables

	30 September 2016	31 December 2015
Trade receivables, net	304.115.903	113.905.306
Notes receivables, net	85.516.389	148.699.225
	389.632.292	262.604.531
Less: provision for doubtful receivables	(26.627.401)	(25.056.794)
Short-term trade receivables	363.004.891	237.547.737
Trade receivables from related parties (Note 21)	18.554.657	106.906.185
Short-term trade receivables	381.559.548	344.453.922
Long-term trade receivables, net	48.432.759	87.065.478
Long-term notes receivable, net	9.357.963	13.230.367
Long-term trade receivables	57.790.722	100.295.845

As of 30 September 2016, the average maturity of trade receivables is between 60-90 days (excluding notes receivables). (31 December 2015 60-90 days.)

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS AT 30 SEPTEMBER 2016

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

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 and armored vehicle sales. As of 30 September 2016, the total trade receivable from dealers amounting to TL 85.563.090 (31 December 2015: TL 109.952.277), after provision provided for doubtful receivables, has been secured by mortgages and guarantees at the amount of TL 83.881.151 (31 December 2015: TL 108.683.872).

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

30 September 2016	Trade receivables
1- 30 day past due	-
1- 3 month past due	-
3- 12 month past due	-
1- 5 year past due	198.043
Over 5 year past due	-
	198.043
Amount secured with guarantees	198.043
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	-
	187.248
Amount secured with guarantees	187.248

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

The movement of the provision for doubtful receivables for the period ended 30 September 2016 and 2015 are as follows:

	2016	2015
As of 1 January	25.056.794	22.526.772
Impact of consolidation (*)	916.092	-
Collection	(547.599)	(287.865)
Currency translation difference	52.816	-
Increase during the period	1.149.298	4.649.511
As of 30 September	26.627.401	26.888.418

(*) Please see Note 2 for details.

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS AT 30 SEPTEMBER 2016

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

NOTE 7 - TRADE RECEIVABLES AND PAYABLES (Continued)

Trade payables

	30 September 2016	31 December 2015
Trade payables, net	107.292.993	138.397.815
Notes payables, net	329.400	252.300
Short-term other trade payables	107.622.393	138.650.115
Trade payables to related parties (Not 21)	4.326.662	27.169.350
Short-term trade payables	111.949.055	165.819.465

As of 30 September 2016, average payment term for trade payables is 45-60 days (31 December 2015: 45-60 days).

NOTE 8 - INVENTORIES

	30 September 2016	31 December 2015
Raw material	224.932.550	127.778.773
Semi-finished goods	30.342.461	14.932.656
Finished goods	125.869.629	148.982.557
Merchandise	71.394.980	58.112.743
Goods in transit	70.851.190	78.964.178
Impairment for inventories (*)	(351.868)	(795.363)
	523.038.942	427.975.544

(*) TL 149.528 of impairment is related to finished goods (31 December 2015: TL 118.113) and TL 202.340 is related to merchandises (31 December 2015: TL 677.250). The impairment has been accounted for under cost of sales.

NOTE 9 - DUE FROM CUSTOMERS ON CONTRACTS WORKS

As of 30 September 2016, receivable from uncompleted customer contracts is TL 237.981.850 (31 December 2015: TL 188.278.141) after offsetting with short-term advances received.

As of 30 September 2016, There isn't any none the short-term advances received by the Group related to ongoing project was included in deferred revenues in the consolidated financial statements (31 December 2015: TL 79.705.827). Remaining balance amounting to TL 164.144.114 in deferred income is composed of other advance received from customers (31 December 2015: TL 74.756.786) and other payables as amounting to TL 23.088.696 (31 December 2015: TL 21.830.112).

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS AT 30 SEPTEMBER 2016

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

NOTE 10 - PROPERTY, PLANT AND EQUIPMENT

Movements of property, plant and equipment and related accumulated depreciation for the periods ended 30 September 2016 and 2015 are as follows:

	1 January 2016	Consolidation impact (*)	Additions	Currency translation difference	Disposals	Transfers	30 September 2016
Cost:							
Land	37.456.746	-	-	-	-	-	37.456.746
Land improvements	11.952.934	-	4.952	-	-	-	11.957.886
Buildings	60.539.783	-	-	-	-	-	60.539.783
Machinery and equipment	99.172.937	504.742	2.167.218	29.100	-	46.357	101.920.354
Motor vehicles	8.427.782	-	1.742.255	-	(512.681)	-	9.657.356
Furniture and fixtures	28.453.405	147.768	2.803.481	8.520	-	77.620	31.490.794
Leasehold improvements	2.099.062	-	7.314	-	(157.005)	-	1.949.371
Construction in process	964.394	-	1.890.792	-	-	(129.467)	2.725.719
	249.067.043	652.510	8.616.012	37.620	(669.686)	(5.490)	257.698.009
Accumulated depreciation:							
Land improvements	6.825.653	-	494.171	-	-	-	7.319.824
Buildings	34.712.739	-	2.097.667	-	-	-	36.810.406
Machinery and equipment	81.444.145	192.914	3.835.686	11.122	-	-	85.483.867
Motor vehicles	5.147.507	-	540.282	-	(100.570)	-	5.587.219
Furniture and fixtures	15.854.686	83.808	2.406.937	4.832	-	-	18.350.263
Leasehold improvements	1.324.974	-	247.883	-	(82.760)	-	1.490.097
	145.309.704	276.722	9.622.626	15.954	(183.330)	-	155.041.676
Net book value	103.757.339						102.656.333
	1 January 2015	Consolidation impact (*)	Additions	Currency translation difference	Disposals	Transfers	30 September 2015
Cost:							
Land	37.456.746	-	-	-	-	-	37.456.746
Land improvements	11.621.866	-	-	-	-	-	11.621.866
Buildings	60.170.668	-	-	-	-	-	60.170.668
Machinery and equipment	108.389.066	-	1.523.744	-	(6.405.949)	330.952	103.837.813
Motor vehicles	9.169.102	-	314.541	-	(765.796)	-	8.717.847
Furniture and fixtures	34.568.907	-	1.180.139	-	(1.980.423)	63.969	33.832.592
Leasehold improvements	2.841.765	-	18.975	-	-	-	2.860.740
Construction in process	2.355.130	-	1.000.423	-	-	(995.799)	2.359.754
	266.573.250	-	4.037.822	-	(9.152.168)	(600.878)	260.858.026
Accumulated depreciation:							
Land improvements	6.176.947	-	485.839	-	-	-	6.662.786
Buildings	31.891.231	-	2.113.507	-	-	-	34.004.738
Machinery and equipment	87.805.628	-	4.117.029	-	(6.405.949)	-	85.516.708
Motor vehicles	4.737.483	-	550.775	-	(195.538)	-	5.092.720
Furniture and fixtures	21.866.594	-	1.742.099	-	(1.980.423)	-	21.628.270
Leasehold improvements	1.835.312	-	228.048	-	-	-	2.063.360
	154.313.195	-	9.237.297	-	(8.581.910)	-	154.968.582
Net book value	112.260.055						105.889.444

(*) Please see Note 2 for details .

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS AT 30 SEPTEMBER 2016

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

NOTE 10 - PROPERTY, PLANT AND EQUIPMENT (Continued)

Allocation of depreciation and amortization expenses of property, plant and equipment and intangible assets for the periods ended at 30 September 2016 and 2015 are as follows:

	30 September 2016	30 September 2015
Research and development expenses	24.780.284	25.250.686
Cost of goods sold	3.538.363	3.804.589
Costs related to uncompleted contracts	3.078.490	2.249.873
Development projects in process	1.422.356	1.513.045
Depreciation on outstanding inventories	970.690	805.761
General administrative expenses	1.340.924	1.254.844
Selling and marketing expenses	1.015.341	896.420
Currency translation differences	15.954	-
	36.162.402	35.775.218

NOTE 11 - INTANGIBLE ASSETS

Movements of intangible assets and related accumulated amortisation for the periods ended 30 September 2016 and 2015 are as follows:

	1 January 2016	Additions	Currency translation differences	Disposals	Transfers	30 September 2016
Cost:						
Other intangible assets	16.231.830	1.363.933	-	-	5.490	17.601.253
Development costs	242.619.897	-	-	-	4.465.183	247.085.080
Developments projects in progress	31.224.033	40.174.915	-	-	(4.465.183)	66.933.765
	290.075.760	41.538.848	-	-	5.490	331.620.098
Accumulated amortization:						
Other intangible assets	11.973.214	1.743.538	-	-	-	13.716.752
Development costs	122.683.468	24.780.284	-	-	-	147.463.752
	134.656.682	26.523.822	-	-	-	161.180.504
Net book value	155.419.078					170.439.594

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS AT 30 SEPTEMBER 2016

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

NOTE 11 - INTANGIBLE ASSETS (Continued)

	1 January 2015	Additions	Currency translation differences	Disposals	Transfers	30 September 2015
Cost:						
Other intangible assets	13.530.710	638.919	-	-	600.878	14.770.507
Development costs	186.078.994	-	-	(819.200)	17.244.062	202.503.856
Developments projects in progress	40.525.892	31.235.253	-	-	(17.244.062)	54.517.083
	240.135.596	31.874.172	-	(819.200)	600.878	271.791.446
Accumulated amortization:						
Other intangible assets	10.221.496	1.287.235	-	-	-	11.508.731
Development costs	88.466.591	25.250.686	-	(13.653)	-	113.703.624
	98.688.087	26.537.921	-	(13.653)	-	125.212.355
Net book value	141.447.509					146.579.091

NOTE 12 – PROVISIONS, CONTINGENT ASSETS AND LIABILITIES

Short-term provisions

	30 September 2016	31 December 2015
Provision for other costs (*)	315.338.218	233.120.100
Warranty provision	28.122.268	26.397.052
Provisions for employee benefits	8.107.271	6.651.542
Foundation employer’s share of social security Premium	-	2.925.000
Provision for license costs	749.027	1.316.079
Provision for legal cases	100.000	100.000
Other	9.667.679	5.790.382
	362.084.463	276.300.155

(*) Includes costs incurred by the Group in relation to the tank project, which were not paid yet, and costs incurred by the subcontractors that will be invoiced to the Group at the end of the project. These costs were calculated and accrued based on the estimated percentage of completion method.

Long-term provisions

	30 September 2016	31 December 2015
Warranty provision	9.099.562	9.433.926
	9.099.562	9.433.926

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS AT 30 SEPTEMBER 2016

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

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

Warranty provision

Group provides one year of warranty period for its minibus and Land Rover sales and provides two years of warranty period for its sales of certain armored vehicles and trade goods. In this context, the Group has provided warranty provision for its sales of abovementioned vehicles based on the future warranty assumptions.

The movement of provision for warranty provision for the periods ended at 30 September 2016 and 2015 are as follows:

	2016	2015
1 January	35.830.978	22.615.088
Charge for the period	23.188.397	32.957.883
Payments	(21.797.545)	(30.770.563)
30 September	37.221.830	24.802.408

Provision for employee benefits

	30 September 2016	31 December 2015
Provision for employment termination benefits	26.061.231	22.321.490
Provision for unused vacation	8.107.271	6.651.542
	34.168.502	28.973.032

Employment termination benefits

The amount payable consists of one month’s salary limited to a maximum of TL 4.297 for each year of service as of 30 September 2016 (31 December 2015: TL 3.828).

There are no agreements for pension commitments other than the legal requirements as explained below.

Under the Turkish Labour Law, the Company is required to pay termination benefits to each employee who has completed one year of service and whose employment is terminated without due cause, or who is called up for military service, dies or retires after completing 25 years of service (20 years for women) and achieves the retirement age.

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

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS AT 30 SEPTEMBER 2016

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

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

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

	30 September 2016	31 December 2015
Net discount rate (%)	4,60	4,60
Turnover rate to estimate the probability of retirement (%)	97,57	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 movement of provision for employment termination benefits is as follows:

	2016	2015
1 January	22.321.490	20.969.191
Interest expense	1.515.071	1.423.284
Current year charge	4.894.180	4.144.907
Remeasurement losses	(48.029)	694.295
Payments	(2.621.481)	(3.184.698)
30 September	26.061.231	24.046.979

Provision for unused vacation

The movement of provision for unused vacation is as follows:

	2016	2015
1 January	6.651.542	5.381.838
Current year charge	1.455.729	957.838
30 September	8.107.271	6.339.676

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS AT 30 SEPTEMBER 2016

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

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

Commitments and contingencies

As of 30 September 2016 and 31 December 2015, the table below represents the position of guarantees, pledges mortgages and securities:

	30 September 2016	31 December 2015
a. Total amount of guarantees, pledges and mortgages given the name of legal entity	1.398.604.459	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	-	-
	1.398.604.459	1.226.251.723

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

	30 September 2016		31 December 2015	
	Original currency	TL equivalent	Original currency	TL equivalent
USD	276.901.742	829.569.928	293.815.364	854.297.554
EUR	117.002.790	393.222.977	54.315.986	172.594.478
TL	174.747.004	174.747.004	199.359.691	199.359.691
GBP	273.600	1.064.550	-	-
	1.398.604.459		1.226.251.723	

The details of guarantees, pledges and mortgages based on institutions are as follows:

	30 September 2016	31 December 2015
Guarantee letters given		
Under secretariat of Ministry of Defense	942.177.763	751.262.190
Other	456.426.696	474.989.533
	1.398.604.459	1.226.251.723

Guarantee Letters

a) Guarantees provided as of 30 September 2016 and 31 December 2015 are as follows::

	30 September 2016	31 December 2015
Bank letters of guarantees (*)	1.398.604.459	1.226.251.723
	1.398.604.459	1.226.251.723

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS AT 30 SEPTEMBER 2016

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

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

(*) Bank letters of guarantees amounting to TL 745.512.435 were provided to Secretariat of Ministry of Defense for Altay Project (31 December 2015: TL 723.539.489).

b) Guarantees received as of 30 September 2016 and 31 December 2015 are as follows:

	30 September 2016	31 December 2015
Bank letters of guarantee (**)	520.415.870	474.011.532
Guarantee notes	16.792.487	17.653.397
Mortgages received	20.000	582.000
	537.228.357	492.246.929

(**) Bank letters of guarantee amounting to TL 273.016.476 were obtained from the sub-contractors for Altay Project (31 December 2015: TL 236.503.977).

Contingent asset

The legal case related to tax deduction for the R&D activities in 2010 was concluded in favor of the Group and TL 2.923.627 has been refunded to the Group. The same case for 2011-2012-2013 and 2014 is still in progress at appeal phase.

The total amount in progress in the court of appeal for the lawsuits of 2011-2012-2013 and 2014 amounts to TL 36.168.636. The Group has another law suit for its R&D activity in 2015 amounting to TL 4.556.631 and is still in progress..

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

a) Prepaid expenses:

	30 September 2016	31 December 2015
Advances given	172.777.047	119.060.514
Prepaid expenses	7.004.865	3.631.034
	179.781.912	122.691.548

b) Other current assets:

	30 September 2016	31 December 2015
Value added tax receivables	106.001.076	62.891.217
Other	2.888.258	2.795.945
	108.889.334	65.687.162

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS AT 30 SEPTEMBER 2016

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

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

c) Deferred revenues:

Short-term deferred revenues	30 September 2016	31 December 2015
Advances received	164.144.114	154.462.613
Deferred maintenance revenues (*)	23.088.696	21.830.112
	187.232.810	176.292.725

Long-term deferred revenues	30 September 2016	31 December 2015
Deferred maintenance revenues (*)	12.628.206	28.312.416
	12.628.206	28.312.416

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

d) Employee benefits obligation:

	30 September 2016	31 December 2015
Social security payables	2.715.574	4.060.123
Payables to employees	2.151.606	9.776.832
Taxes and funds payable	1.057.884	4.300.629
	5.925.064	18.137.584

e) Other current liabilities:

	30 September 2016	31 December 2015
Deferred special consumption tax	358.474	638.813
Taxes and funds payable	212.406	915.723
Other	251.699	424.033
	822.579	1.978.569

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS AT 30 SEPTEMBER 2016

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

NOTE 14 - SALES AND COST OF SALES

Net sales

	1 January - 30 September 2016	1 July - 30 September 2016	1 January - 30 September 2015	1 July - 30 September 2015
Domestic sales	814.995.398	320.219.735	656.512.137	241.216.528
Export sales	311.009.017	106.760.328	236.319.597	106.760.115
Gross sales	1.126.004.415	426.980.063	892.831.734	347.976.643
Less: sales discounts and sales returns	(7.166.159)	(1.812.080)	(3.897.140)	(2.863.988)
Net sales	1.118.838.256	425.167.983	888.934.594	345.112.655

Sales of the Group for the period 1 January - 30 September 2016 and 2015 based on products are as follows:

	1 January - 30 September 2016	1 July - 30 September 2016	1 January - 30 September 2015	1 July - 30 September 2015
Commercial vehicle	438.608.441	195.654.186	487.551.754	175.445.069
Armored vehicle	429.160.652	147.491.816	149.177.053	80.911.482
Other (*)	251.069.163	82.021.981	252.205.787	88.756.104
	1.118.838.256	425.167.983	888.934.594	345.112.655

(*) TL 135.871.306 of the amount is related to revenues from uncompleted contracts (30 September 2015: TL 132.246.698) and the remaining amount of TL 115.197.857 is revenues from sales of spare parts, maintenance services and other sales (30 September 2015: TL 119.959.089).

Cost of sales

	1 January - 30 September 2016	1 July - 30 September 2016	1 January - 30 September 2015	1 July - 30 September 2015
Cost of finished goods sold	(794.982.088)	(308.820.723)	(626.352.453)	(235.696.751)
Cost of merchandise goods sold	(47.328.775)	(14.816.974)	(50.943.364)	(21.049.211)
Cost of sales	(842.310.863)	(323.637.697)	(677.295.817)	(256.745.962)

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS AT 30 SEPTEMBER 2016

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

NOTE 15 - OPERATING EXPENSES

	1 January - 30 September 2016	1 July - 30 September 2016	1 January - 30 September 2015	1 July - 30 September 2015
Marketing and selling	(127.027.993)	(41.150.552)	(115.732.562)	(41.420.949)
General and administrative	(44.294.013)	(15.253.907)	(33.825.496)	(9.843.626)
Research and development	(25.885.830)	(9.643.365)	(26.204.024)	(9.007.239)
	(197.207.836)	(66.047.824)	(175.762.082)	(60.271.814)

NOTE 16 - OTHER OPERATING INCOME AND EXPENSES

	1 January – 30 September 2016	1 July – 30 September 2016	1 January – 30 September 2015	1 July – 30 September 2015
Other operating income				
Foreign exchange gains on operating activities	79.117.744	64.076.764	62.252.877	54.083.806
Gain on forward transactions	6.431.343	2.049.564	33.757.683	10.916.726
Revenue from charge of due date receivables	6.456.950	1.630.570	9.484.032	5.737.622
Gain on incentives	1.542.230	514.077	1.525.384	508.461
Other	9.642.520	4.434.807	5.266.267	2.425.739
	103.190.787	72.705.782	112.286.243	73.672.354

	1 January – 30 September 2016	1 July – 30 September 2016	1 January – 30 September 2015	1 July – 30 September 2015
Other operating expenses				
Foreign exchange loss on operating activities	(70.265.388)	(55.507.625)	(51.257.749)	(34.547.231)
Loss on forward transactions	(7.184.799)	(2.797.426)	(27.260.721)	(13.388.056)
Expense on provision for uncollectible receivables	(1.149.298)	(974.777)	(4.649.511)	(2.827.935)
Other	-	-	(69.027)	(10.637)
	(78.599.485)	(59.279.828)	(83.237.008)	(50.773.859)

NOTE 17 - FINANCIAL INCOME

	1 January – 30 September 2016	1 July – 30 September 2016	1 January – 30 September 2015	1 July – 30 September 2015
Foreign exchange gains on deposits	249.852	(82.818)	616.544	292.575
Interest income on time deposits	3.527.114	1.451.303	3.693.737	831.486
Foreign exchange gains on borrowings	9.203.750	6.945.900	492.326	(1.038.699)
	12.980.716	8.314.385	4.802.607	85.362

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS AT 30 SEPTEMBER 2016

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

NOTE 18 - FINANCIAL EXPENSES

	1 January – 30 September 2016	1 July – 30 September 2016	1 January – 30 September 2015	1 July – 30 September 2015
Interest expense on bank borrowings	(56.926.882)	(22.117.185)	(26.226.704)	(11.761.872)
Foreign exchange losses on deposits	(4.773.141)	(2.222.934)	(6.248.347)	(1.420.037)
Foreign exchange losses on borrowings	(16.885.600)	(13.386.200)	(22.921.190)	(17.631.139)
Other	(46.314)	83.643	-	-
	(78.631.937)	(37.642.676)	(55.396.241)	(30.813.048)

NOTE 19 - TAX ASSETS AND LIABILITIES

In Turkey, the corporation tax rate is 20% (2015: 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 30 September 2016 and 31 December 2015, income tax payables net of prepaid taxes in the balance sheet are as follows:

	30 September 2016	31 December 2015
Income tax payable	-	6.844.679
Less-prepaid tax	-	(4.750.985)
Current tax liability / assets	-	2.093.694

The breakdown of total tax expense for the periods ended 30 September 2016 and 2015 are as follows:

	1 January – 30 September 2016	1 January – 30 September 2015
Current tax charge	2.288.048	(4.739.258)
Deferred tax income charged to:		
Statement of profit or loss	(7.498.662)	5.457.269
Statement of other comprehensive income	(9.606)	138.859
Total tax income / (loss)	(5.220.220)	856.870

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS AT 30 SEPTEMBER 2016

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

NOTE 19 - TAX ASSETS AND LIABILITIES (Continued)

As of 30 September 2016 and 31 December 2015, the breakdown of deferred tax bases and deferred tax assets calculated using the current effective tax rates are as follows:

	Cumulative temporary differences		Deferred tax assets/(liabilities)	
	30 September 2016	31 December 2015	30 September 2016	31 December 2015
Property, plant and equipment	(9.826.953)	(10.992.437)	1.515.904	1.282.807
Intangible assets	(36.404.977)	(26.282.311)	(7.280.995)	(5.256.462)
Deferred financial expense	(413.979)	(900.574)	(82.796)	(180.115)
Inventories	238.910	805.990	47.782	161.198
Warranty provision	37.221.830	35.830.978	7.444.366	7.166.196
Provision for employment termination benefits	26.061.231	22.321.490	5.212.246	4.464.298
Deferred financial income	5.902.959	7.933.694	1.180.592	1.586.739
Other provisions	21.344.861	14.808.853	4.268.972	2.961.770
Deferred maintenance income	35.716.902	50.142.528	7.143.380	10.028.506
Due from customers on contract works	54.421.930	69.655.901	10.884.386	13.931.180
Other	(2.642.170)	5.837.770	(528.434)	1.167.554
Deferred tax asset, net			29.805.403	37.313.671

The movement of deferred tax asset for the periods ended 30 September 2016 and 2015 are as follows:

	1 January - 30 September 2016	1 January - 30 September 2015
1 January	37.313.671	39.335.574
Deferred tax income charged to:		
- Statement of profit or loss	(7.498.662)	5.457.269
- Statement of other comprehensive income	(9.606)	138.859
30 September	29.805.403	44.931.702

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 may 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.

	30 September 2016	30 September 2015
Net income attributable to shareholders (TL)	33.083.608	16.522.180
Weighted average number of issued shares	24.000.000.000	24.000.000.000
Earnings per share (Piaster)	0,138	0,069

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS AT 30 SEPTEMBER 2016

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

NOTE 21 - RELATED PARTY DISCLOSURES

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

i) Due from and due to related party balances as of 30 September 2016 and 31 December 2015:

Due from related parties	30 September 2016	31 December 2015
Ram Dış Ticaret A.Ş. (1) (*)	18.392.099	99.343.743
Ford Otomotiv Sanayi A.Ş. (2)	129.486	390.673
Türk Traktör ve Ziraat Makineleri A.Ş. (1)	32.495	413.262
Opet Fuchs Madeni Yağ A.Ş. (1)	577	-
Otokar Europe SAS (3)	-	6.742.250
Other (1)	-	16.257
	18.554.657	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	30 September 2016	31 December 2015
Ram Dış Ticaret A.Ş. (1)	1.304.170	14.026.345
Zer Merkezi Hizmetler ve Ticaret A.Ş. (1)	1.003.042	3.244.001
Setur Servis Turistik A.Ş. (1)	569.416	1.029.066
Koç Holding A.Ş. (2)	384.940	5.992.481
Opet Fuchs Madeni Yağ A.Ş. (1)	357.371	398.558
Eltek Elektrik Enerji İth. İhr. Top. Tic. A.Ş. (1)	324.634	492.530
Ram Sigorta Aracılık Hz. A.Ş. (1)	180.651	657.447
Akpa Dayanıklı Tük. Paz. A.Ş. (1)	123.829	315.837
Koç Sistem Bilgi ve İletişim Hiz. A.Ş. (1)	71.740	202.101
Koçtaş Yapı Marketleri A.Ş. (1)	4.887	5.671
Arçelik A.Ş. (1)	1.982	1.070
Divan Turizm İşletmeleri A.Ş. (1)	-	442.943
Otokoç Otomotiv Tic. ve San. A.Ş. (1)	-	269.119
Opet Petrolcülük A.Ş. (1)	-	84.837
Other (1)	-	7.344
	4.326.662	27.169.350

(1) Related parties of parent company of the Group

(2) Shareholder of the Group

(3) The Group's subsidiary not in scope of consolidation

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS AT 30 SEPTEMBER 2016

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

NOTE 21 - RELATED PARTY DISCLOSURES (Continued)

ii) Major sales and purchase transactions with related parties for the periods ended at 30 September 2016 and 2015 are as follows

	1 January - 30 September 2016	1 July - 30 September 2016	1 January - 30 September 2015	1 July - 30 September 2015
Product sales and service revenue				
Ram Dış Ticaret A.Ş. (1) (*)	120.069.288	16.442.296	184.273.463	92.752.732
Türk Traktör ve Ziraat Makineleri A.Ş. (1)	316.330	-	1.110.328	465.767
Ford Otomotiv Sanayi A.Ş. (2)	154.936	-	1.563	1.297
Aygaz A.Ş. (1)	2.668	-	591.970	284.374
Arçelik A.Ş. (1)	669	-	-	-
Opet Fuchs Madeni Yağ A.Ş. (1)	527	527	-	-
Otokoç Otomotiv Tic. ve San. A.Ş. (1)	-	-	589	-
Otokar Europe SAS (3)	-	-	11.689.233	3.855.285
	120.544.418	16.442.823	197.667.146	97.359.455

(*) 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.

	1 January - 30 September 2016	1 July - 30 September 2016	1 January - 30 September 2015	1 January - 30 September 2015
Purchase of property, plant and equipment				
Koç Sistem Bilgi ve İlt. Hizm. A.Ş. (1)	2.271.649	420.707	649.502	141.833
Zer Merkezi Hizmetler ve Ticaret A.Ş. (1)	163.596	57.084	130.934	65.983
Otokoç Otomotiv Tic. ve San. A.Ş. (1)	59.864	-	161.901	-
Arçelik A.Ş. (1)	34.682	24.398	13.360	1.580
Setur Servis Turistik A.Ş. (1)	31.230	31.230	18.878	18.878
Other (1)	820	-	4.850	4.850
	2.561.841	533.419	979.425	233.124

	1 January - 30 September 2016	1 July - 30 September 2016	1 January - 30 September 2015	1 July - 30 September 2015
Inventories purchased				
Zer Merkezi Hizmetler ve Ticaret A.Ş. (1)	14.322.153	5.504.311	12.410.881	4.621.034
Ram Dış Ticaret A.Ş. (1)	2.000.441	1.174.587	4.112.603	1.569.035
Akpa Dayanıklı Tük.Paz. A.Ş. (1)	1.515.333	558.105	1.730.422	628.083
Opet Fuchs Madeni Yağ A.Ş. (1)	1.457.882	472.670	1.766.402	609.480
Opet Petrolcülük A.Ş.(1)	1.426.038	495.030	1.331.638	453.489
East Marine Denizcilik (1)	38.118	36.220	-	-
Ford Otomotiv Sanayi A.Ş. (2)	35.943	-	2.752	-
Koçtaş Yapı Marketleri A.Ş.(1)	20.355	5.964	44.847	21.545
Arçelik A.Ş. (1)	8.057	6.853	2.783	-
	20.824.320	8.253.740	21.402.328	7.902.666

- (1) Related parties of parent company of the Group
(2) Shareholders of the Group
(3) The Group's subsidiary not in scope of consolidation

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS AT 30 SEPTEMBER 2016

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

NOTE 21 - RELATED PARTY DISCLOSURES (Continued)

Services purchased	1 January - 30 September 2016	1 July - 30 September 2016	1 January - 30 September 2015	1 July - 30 September 2015
Ram Dış Ticaret A.Ş.(1)	21.471.772	4.452.113	9.186.378	2.833.952
Koç Holding A.Ş. (2) (*)	8.218.394	4.815.036	1.896.619	571.339
Setur Servis Turistik A.Ş. (1)	4.434.075	1.418.904	3.406.046	1.112.435
Eltek Elektrik Enerji İth. İhr. Top. Tic. A.Ş.(1)	3.405.193	1.054.842	3.532.964	1.160.367
Koç Sistem Bilgi ve İlt. Hizm. A.Ş. (1)	2.103.401	668.485	1.005.293	483.761
Otokoç Otomotiv Tic. ve San. A.Ş.(1)	1.915.284	639.378	1.582.793	584.085
Ram Sigorta Aracılık Hz. A.Ş. (1) (**)	1.841.950	620.730	-	-
Setair Hava Taşımacılığı ve Hizm. A.Ş. (1)	187.112	-	57.712	-
Koç Üniversitesi (1)	132.796	116.500	128.280	114.948
Other (1)	210.422	39.811	5.304.993	2.659.325
	43.920.399	13.825.799	26.101.078	9.520.212

(*) Composed of costs charged by the parent Company Koç Holding A.Ş. for the services provided to the Group in relation to assistance in finance, law, planning, tax, management and other related subject areas in the context of Communique 1 on Transfer Pricing and Thin Capitalization “11 - Intra-Group Services”.

(**) Composed of premiums accrued and paid in relation to insurance agreements signed with Ram Sigorta Aracılık Hizmetleri A.Ş. for the period ended 30 September 2016.

Banks deposits	30 September 2016	31 December 2015
Yapı ve Kredi Bankası A.Ş. (1)		
- Demand deposits	2.265	2.931
- Time deposits	6.496.426	33.072.560
	6.498.691	33.075.491

Checks and notes at banks	30 September 2016	31 December 2015
Yapı ve Kredi Bankası A.Ş. (1)	6.977.202	25.716.139
	6.977.202	25.716.139

Borrowings	30 September 2016	31 December 2015
Yapı ve Kredi Bankası A.Ş. (1)	43.228.543	40.176.227
	43.228.543	40.176.227

(1) Related parties of parent company of the Group

(2) Shareholders of the Group

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS AT 30 SEPTEMBER 2016

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

NOTE 21 - RELATED PARTY DISCLOSURES (Continued)

Other income and expenses for the periods ended at 30 September 2016 and 2015:

	1 January - 30 September 2016	1 July - 30 September 2016	1 January - 30 September 2015	1 July - 30 September 2015
Foreign exchange gain on trade receivables and payables				
Ram Dış Ticaret A.Ş. (1)	2.573.691	727.708	7.958.586	7.140.342
Yapı Kredi Faktoring A.Ş. (1)	198.083	-	3.026.053	3.026.053
Other (1)	34.374	2.816	365.925	255.454
	2.806.148	730.524	11.350.564	10.421.849

	1 January - 30 September 2016	1 July - 30 September 2016	1 January - 30 September 2015	1 July - 30 September 2015
Foreign exchange loss on receivables and payables				
Yapı Kredi Faktoring A.Ş. (1)	5.668.096	-	-	-
Ram Dış Ticaret A.Ş. (1)	1.683.174	317.125	2.258.980	1.313.739
Other (1)	103.668	32.848	245.272	53.205
	7.454.938	349.973	2.504.252	1.366.944

Financial income and expenses for the periods ended at 30 September 2016 and 2015:

	1 January - 30 September 2016	1 July - 30 September 2016	1 January - 30 September 2015	1 July - 30 September 2015
Interest income				
Yapı ve Kredi Bankası A.Ş. (1)	115.770	14.079	22.112	7.977
	115.770	14.079	22.112	7.977

	1 January - 30 September 2016	1 July - 30 September 2016	1 January - 30 September 2015	1 July - 30 September 2015
Interest expense				
Yapı ve Kredi Bankası A.Ş. (1)	3.693.886	1.474.960	5.001.176	1.475.042
	3.693.886	1.474.960	5.001.176	1.475.042

(1) Related parties of parent company of the Group

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS AT 30 SEPTEMBER 2016

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

NOTE 21 - RELATED PARTY DISCLOSURES (Continued)

Financial income and expenses for the periods ended at 30 September 2016 and 2015:

	1 January - 30 September 2016	1 July - 30 September 2016	1 January - 30 September 2015	1 July - 30 September 2015
Foreign exchange gains				
Yapı ve Kredi Bankası A.Ş. (1)	1.056.906	745.933	3.021.518	117.793
	1.056.906	745.933	3.021.518	117.793
Foreign exchange losses				
Yapı ve Kredi Bankası A.Ş. (1)	2.539.908	693.010	5.147.999	212.895
	2.539.908	693.010	5.147.999	212.895

(1) Related parties of parent company of the Group

Benefits to key management

Employment benefits provided to the executive management to the Group for the period ended at 30 September 2016 amounted to TL 4.895.842 (30 September 2015: TL 4.101.536). Management is composed of executive members, members of board of directors, general manager and assistants of general managers.

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. 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

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS AT 30 SEPTEMBER 2016

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

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

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

30 September 2016	TL equivalent (functional currency)	USD	EUR	GBP
1. Trade receivables	504.436.677	84.061.725	74.260.259	776.755
2a. Monetary financial assets (including cash, bank accounts)	185.444.488	39.333.654	20.115.424	225
2b. Non-monetary financial assets	-	-	-	-
3. Other	1.330	304	125	-
4. Current assets (1+2+3)	689.882.495	123.395.683	94.375.808	776.980
5. Trade receivables	57.437.268	-	17.090.356	-
6a. Monetary financial assets	-	-	-	-
6b. Non-monetary financial assets	-	-	-	-
7. Other	58.276	-	17.340	-
8. Non-current assets (5+6+7)	57.495.544	-	17.107.696	-
9. Total assets (4+8)	747.378.039	123.395.683	111.483.504	776.980
10. Trade payables	(45.307.318)	(3.096.529)	(10.633.309)	(75.562)
11. Financial liabilities	(98.010.636)	(2.999.988)	(26.488.625)	-
12a. Monetary other liabilities	(466.140.376)	(102.216.056)	(47.231.653)	(302.026)
12b. Non-monetary other liabilities	(23.088.696)	-	(6.870.000)	-
13. Current liabilities (10+11+12)	(632.547.026)	(108.312.573)	(91.223.587)	(377.588)
14. Trade payables	-	-	-	-
15. Financial liabilities	(67.216.000)	-	(20.000.000)	-
16a. Monetary other liabilities	-	-	-	-
16b. Non-monetary other liabilities	(12.628.206)	-	(3.757.500)	-
17. Non-current liabilities (14+15+16)	(79.844.206)	-	(23.757.500)	-
18. Total liabilities (13+17)	(712.391.232)	(108.312.573)	(114.981.087)	(377.588)
19. Net asset/(liability) position of off-balance sheet derivative instruments (19a-19b)	(33.540.600)	(14.000.000)	2.500.000	-
19a. Hedged total assets amount	8.402.000	-	2.500.000	-
19b. Hedged total liabilities amount	(41.942.600)	(14.000.000)	-	-
20. Net foreign currency asset/(liability) position (9+18+19)	1.446.207	1.083.110	(997.583)	399.392
21. Net foreign currency asset/(liability) position of monetary items (=1+2a+5+6a-10-11-12a-14-15-16a)	70.644.103	15.082.806	7.112.452	399.392
22. Total fair value of financial instruments used for foreign currency hedging	(33.540.600)	(14.000.000)	2.500.000	-
23. Export (for the period ended 30 September 2016)	307.152.326	41.292.984	55.872.996	801.882
24. Import (for the period ended 30 September 2016)	426.422.766	75.099.202	59.509.370	2.707.258

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS AT 30 SEPTEMBER 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 (for the period ended 30 September 2016)	235.730.953	29.817.972	52.129.750	29.744
24. Import (for the period ended 30 September 2016)	328.768.752	67.273.192	43.040.614	4.708.678

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS AT 30 SEPTEMBER 2016

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

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, EUR and GBP exchange rates, with all other variables held constant, on the Group's income before tax as of 30 September 2016 and 31 December 2015:

30 September 2016	Profit before tax Appreciation of foreign currency	Profit before tax Depreciation of foreign currency
<i>If USD fluctuates 10% against TL:</i>		
1- USD net asset/liability	324.489	(324.489)
2- Amount hedged for USD risk (-)	-	-
3- USD net effect (1+2)	324.489	(324.489)
<i>If EUR fluctuates 10% against TL:</i>		
4- EUR net asset/liability	(335.268)	335.268
5- Amount hedged for EUR risk (-)	-	-
6- EUR net effect (1+2)	(335.268)	335.268
<i>If GBP fluctuates 10% against TL:</i>		
7- GBP net asset/liability	155.400	(155.400)
8- Amount hedged for GBP risk (-)	-	-
9- GBP net effect (1+2)	155.400	(155.400)
Total (3+6+9)	144.621	(144.621)
31 December 2015	Profit before tax Appreciation of foreign currency	Profit before tax Depreciation of foreign currency
<i>If USD fluctuates 10% 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>If EUR fluctuates 10% against TL:</i>		
4- EUR net asset/liability	(190.786)	190.786
5- Amount hedged for EUR risk (-)	-	-
6- EUR net effect (1+2)	(190.786)	190.786
<i>If GBP fluctuates 10% against TL:</i>		
7- GBP net asset/liability	(14.020)	14.020
8- Amount hedged for GBP risk (-)	-	-
9- GBP net effect (1+2)	(14.020)	14.020
Total (3+6+9)	531.787	(531.787)

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS AT 30 SEPTEMBER 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. If all significant inputs required to measure the fair value of a financial instrument are observable, the instrument is evaluated as level 2. Fair value calculations shall be disclosed based on the following hierarchy:

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

The following table presents the Group’s assets that are measured at fair value at 30 September 2016 and 31 December 2015:

30 September 2016

Assets	Level 1	Level 2	Level 3	Total
Derivative financial instruments	-	135.400	-	135.400

31 December 2015

Assets	Level 1	Level 2	Level 3	Total
Derivative financial instruments	-	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 instrument.

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

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

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

**NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
AT 30 SEPTEMBER 2016**

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

NOTE 24 - SUBSEQUENT EVENTS

None.

**NOTE 25 - OTHER ISSUES THAT SIGNIFICANTLY AFFECT THE FINANCIAL
STATEMENTS OR OTHER ISSUES REQUIRED FOR CLEAR
UNDERSTANDING OF FINANCIAL STATEMENTS**

None.

.....