

**OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ**

**CONVENIENCE TRANSLATION INTO ENGLISH OF  
CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE PERIOD 1 JANUARY - 31 DECEMBER 2018**

**(ORIGINALLY ISSUED IN TURKISH)**

**CONVENIENCE TRANSLATION INTO ENGLISH OF  
INDEPENDENT AUDITOR’S REPORT  
ORIGINALLY ISSUED IN TURKISH**

**INDEPENDENT AUDITOR’S REPORT**

To the General Assembly of Otokar Otomotiv ve Savunma Sanayi A.Ş.

**A. Audit of the Consolidated Financial Statements**

**1. Opinion**

We have audited the accompanying consolidated financial statements of Otokar Otomotiv ve Savunma Sanayi A.Ş. (the “Company”) and its subsidiaries (collectively referred to as the “Group”), which comprise the consolidated statement of financial position as at 31 December 2018 and the consolidated statement of profit or loss, consolidated statement of other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended and the notes to the consolidated financial statements and a summary of significant accounting policies and consolidated financial statement notes.

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2018, and its financial performance and its cash flows for the year then ended in accordance with Turkish Financial Reporting Standards (“TFRS”).

**2. Basis for Opinion**

Our audit was conducted in accordance with the Standards on Independent Auditing (the “SIA”) that are part of Turkish Standards on Auditing issued by the Public Oversight Accounting and Auditing Standards Authority (the “POA”). Our responsibilities under these standards are further described in the “Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements” section of our report. We hereby declare that we are independent of the Group in accordance with the Ethical Rules for Independent Auditors (the “Ethical Rules”) and the ethical requirements regarding independent audit in regulations issued by POA that are relevant to our audit of the financial statements. We have also fulfilled our other ethical responsibilities in accordance with the Ethical Rules and regulations. We believe that the audit evidence we have obtained during the independent audit provides a sufficient and appropriate basis for our opinion.

### 3. Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. Key audit matters were addressed in the context of our independent audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

<b>Key Audit Matters</b>	<b>How audit matters are handled</b>
<p><b>Warranty Expense Provision</b></p> <p>As explained in Note 15, the Group has warranty provision amounting to TRY43.7 million as of 31 December 2018.</p> <p>The Group calculates warranty provisions for possible future claims, maintenance and repair expenses in the following years for products sold in the current year. Warranty provisions are calculated based on the remaining warranty period per vehicle and the warranty expense per vehicle estimated using the previous years' data.</p> <p>We focused on this matter during our audit for the reasons below:</p> <p>a) the amount of the warranty provision balance is material in the consolidated financial statements</p> <p>b) the warranty provision is calculated per vehicle, depending on certain assumptions such as the probable warranty claims per vehicle and foreign exchange rates. Changes in such assumptions may affect the consolidated financial statements.</p>	<p>We performed the following audit procedures to test the reasonableness of the warranty provision:</p> <ul style="list-style-type: none"><li>• We tested the controls related to reviewing and approving the Group's assumptions in establishing the accounting estimates used.</li><li>• We tested the remaining warranty period per vehicle as follows:<ul style="list-style-type: none"><li>- Group management provided us with the warranty expense provision calculation. We checked the number of vehicles sold subject to the warranty calculation and tested the invoices of the vehicles sold in the current period by using the sampling method.</li><li>- We tested the mathematical accuracy of the remaining warranty period calculated for each vehicle sold by recalculation.</li></ul></li></ul>

### 3. Key Audit Matters (Continued)

<b><i>Key Audit Matters</i></b>	<b><i>How audit matters are handled</i></b>
	<ul style="list-style-type: none"> <li>• We tested the warranty provision per vehicle estimated using the current and previous years' actual warranty expenses as stated below: <ul style="list-style-type: none"> <li>- We compared the consistency of the actual warranty expenses with the Group management's past estimations and assumptions.</li> <li>- The Group calculates the current year's warranty expense provision per vehicle in hard currency based on the actual warranty expenses realized in the current and previous periods taking into consideration the changes in the foreign exchange rate. We assessed the reasonableness of the warranty expense provision taking into account the actual warranty expenses and fluctuations in the foreign exchange rate. and compared this amount with the warranty expense provision calculated by the Group.</li> <li>- We tested the Group's actual warranty provision expenses for the current period using by sampling method.</li> </ul> </li> </ul>

#### **4. Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements**

The Group management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with TFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

#### **5. Auditor's Responsibilities for the Audit of the Consolidated Financial Statements**

Responsibilities of independent auditors in an independent audit are as follows:

Our aim is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an independent auditor's report that includes our opinion. Reasonable assurance expressed as a result of an independent audit conducted in accordance with SIA is a high level of assurance but does not guarantee that a material misstatement will always be detected. Misstatements can arise from fraud or error. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an independent audit conducted in accordance with SIA, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement in the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Assess the internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

**5. Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (Continued)**

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our independent auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence. We also communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

**B. Other Responsibilities Arising From Regulatory Requirements**

1. No matter has come to our attention that is significant according to subparagraph 4 of Article 402 of Turkish Commercial Code (“TCC”) No. 6102 and that causes us to believe that the Company’s bookkeeping activities concerning the period from 1 January to 31 December 2018 period are not in compliance with the TCC and provisions of the Company’s articles of association related to financial reporting.
2. In accordance with subparagraph 4 of Article 402 of the TCC, the Board of Directors submitted the necessary explanations to us and provided the documents required within the context of our audit.
3. In accordance with subparagraph 4 of Article 398 of the TCC, the auditor’s report on the early risk identification system and committee was submitted to the Company’s Board of Directors on 6 February 2019.

PwC Bağımsız Denetim ve  
Serbest Muhasebeci Mali Müşavirlik A.Ş.

Beste Ortaç, SMMM  
Partner

Istanbul, 6 February 2019

# **OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ**

## **CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY - 31 DECEMBER 2018**

---

<b>CONTENT</b>	<b>PAGE</b>
<b>CONSOLIDATED BALANCE SHEETS .....</b>	<b>1 - 2</b>
<b>CONSOLIDATED STATEMENTS OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME.....</b>	<b>3</b>
<b>CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY .....</b>	<b>4</b>
<b>CONSOLIDATED STATEMENTS OF CASH FLOWS .....</b>	<b>5</b>
<b>NOTES TO CONSOLIDATED FINANCIAL STATEMENTS .....</b>	<b>6-67</b>



# OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

## CONSOLIDATED BALANCE SHEETS AS OF 31 DECEMBER 2018 AND 2017

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

	Notes	(Audited) 31 December 2018	(Audited) 31 December 2017
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	4	173,017	228,958
Trade receivables	8	870,457	445,329
<i>Due from related parties</i>	27	399,044	29,656
<i>Due from other parties</i>	8	471,413	415,673
Other receivables	9	304	68
Due from customers on contract works	11	-	312,030
Inventories	10	690,013	413,056
Derivative financial instruments	7	297	1,325
Prepaid expenses	17	7,470	190,153
Other current assets	17	60,923	40,632
<b>Total current assets</b>		<b>1,802,481</b>	<b>1,631,551</b>
<b>Non-current assets</b>			
Trade receivables	8	7,930	10,235
Other receivables	9	707	281
Financial investments		-	41
Investments accounted for using the equity method	5	13,305	-
Property, plant and equipment	12	107,603	101,009
Intangible assets	13	280,656	219,864
Deferred income tax asset	25	90,064	46,606
<b>Total non-current assets</b>		<b>500,265</b>	<b>378,036</b>
<b>Total assets</b>		<b>2,302,746</b>	<b>2,009,587</b>

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

# OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

## CONSOLIDATED BALANCE SHEETS AS OF 31 DECEMBER 2018 AND 2017

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

		(Audited) 31 December 2018	(Audited) 31 December 2017
	Notes		
<b>Liabilities</b>			
<b>Current liabilities</b>			
Short-term borrowings	6	-	429,248
Short-term portion of long-term borrowings	6	207,281	84,410
Trade payables	8	269,459	62,117
<i>Due to related parties</i>	27	25,346	14,094
<i>Due to other parties</i>	8	244,113	48,023
Employee benefit obligations	17	30,344	24,294
Other payables, third parties	9	43,292	42,549
Deferred income	17	196,791	21,084
Government grants	14	1,283	1,940
Short-term provisions	15	104,281	403,935
<i>Provisions for employee benefits</i>		10,443	9,286
<i>Other provisions</i>		93,838	394,649
Other current liabilities	17	15,409	2,742
<b>Total current liabilities</b>		<b>868,140</b>	<b>1,072,319</b>
<b>Non-current liabilities</b>			
Long-term borrowings	6	500,266	190,000
Government grants	14	1,124	1,441
Long-term provisions	16	38,235	31,693
<i>Provisions for employee benefits</i>	16	38,235	31,693
Deferred income	17	505,395	430,580
<b>Total non-current liabilities</b>		<b>1,045,020</b>	<b>653,714</b>
<b>Total liabilities</b>		<b>1,913,160</b>	<b>1,726,033</b>
<b>Equity</b>			
Paid-in share capital	18	24,000	24,000
Inflation adjustment on share capital	18	52,743	52,743
Restricted reserves	18	66,678	59,798
Accumulated other comprehensive income and expense that will not be reclassified to statement of profit or loss	18	(3,586)	(4,880)
<i>Defined benefit plans remeasurement losses</i>	18	(3,586)	(4,880)
Accumulated other comprehensive income and expense that may be reclassified to statement of profit or loss		12,997	2,396
<i>Currency translation differences</i>		12,997	2,396
Retained earnings	18	72,418	50,074
Net profit for the period	18	164,336	99,423
<b>Total equity</b>		<b>389,586</b>	<b>283,554</b>
<b>Total liabilities and equity</b>		<b>2,302,746</b>	<b>2,009,587</b>

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

# OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

## CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE PERIODS 1 JANUARY - 31 DECEMBER 2018 AND 2017

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

	Notes	(Audited) 1 January – 31 December 2018	(Audited) 1 January – 31 December 2017
Net Sales	19	1,678,661	1,785,272
Cost of sales (-)	19	(1,085,704)	(1,313,646)
<b>GROSS PROFIT</b>		<b>592,957</b>	<b>471,626</b>
Marketing expenses (-)	20	(285,053)	(234,662)
General administrative expenses (-)	20	(91,886)	(69,524)
Research and development expenses (-)	20	(50,481)	(43,644)
Other operating income	22	344,701	448,664
Other operating expenses (-)	22	(278,826)	(346,746)
<b>OPERATING PROFIT</b>		<b>231,412</b>	<b>225,714</b>
Income from investing activities		-	1,250
Expenses from investing activities (-)		(2,454)	-
Share of profit/loss of investments accounted for using the equity method, net	5	12,182	-
<b>OPERATING INCOME BEFORE FINANCIAL EXPENSES</b>		<b>241,140</b>	<b>226,964</b>
Financial income	23	45,891	14,548
Financial expense (-)	24	(165,886)	(150,806)
<b>PROFIT BEFORE TAX</b>		<b>121,145</b>	<b>90,706</b>
Tax income/(expense) from continued operations			
Current tax expense (-)	25	(632)	(66)
Deferred tax income	25	43,823	8,783
<b>PROFIT FOR THE PERIOD</b>		<b>164,336</b>	<b>99,423</b>
<b>Items that will not be reclassified to statement of profit or loss</b>			
Remeasurement (losses)/gains		1,659	136
Deferred tax income/(expense)		(365)	(30)
<b>Items that may be reclassified to statement of profit or loss</b>			
Currency translation differences of investments accounted for using the equity method		1,123	-
Currency translation differences		9,478	1,067
<b>Other comprehensive income</b>		<b>11,895</b>	<b>1,173</b>
<b>TOTAL COMPREHENSIVE INCOME</b>		<b>176,231</b>	<b>100,596</b>
<b>Earnings per share (Kr)</b>	<b>26</b>	<b>0.685</b>	<b>0.414</b>

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

# OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE PERIODS 1 JANUARY - 31 DECEMBER 2018 AND 2017

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

					Accumulated other comprehensive income and expense that will not be reclassified to statement of profit or loss	Accumulated other comprehensive income and expense that may be reclassified to statement of profit or loss			
		Paid in Share capital	Inflation adjustments	Restricted reserves	Remeasurement losses on defined benefit plans	Currency translation differences	Retained earnings	Net income for the period	Total equity
<b>Previous period</b>	<b>Opening balances</b>	<b>24,000</b>	<b>52,743</b>	<b>54,015</b>	<b>(4,986)</b>	<b>1,329</b>	<b>46,132</b>	<b>69,725</b>	<b>242,958</b>
	Transfers	-	-	5,783	-	-	63,942	(69,725)	-
	Dividends paid	-	-	-	-	-	(60,000)	-	(60,000)
	Total comprehensive income	-	-	-	106	1,067	-	99,423	100,596
	<b>Closing balances</b>	<b>24,000</b>	<b>52,743</b>	<b>59,798</b>	<b>(4,880)</b>	<b>2,396</b>	<b>50,074</b>	<b>99,423</b>	<b>283,554</b>
<b>Current period</b>	<b>Opening balances</b>	<b>24,000</b>	<b>52,743</b>	<b>59,798</b>	<b>(4,880)</b>	<b>2,396</b>	<b>50,074</b>	<b>99,423</b>	<b>283,554</b>
	Impact of the subsidiary that is currently included in consolidation (Note 2)	-	-	-	-	-	(199)	-	(199)
	Transfers	-	-	6,880	-	-	92,543	(99,423)	-
	Dividends paid	-	-	-	-	-	(70,000)	-	(70,000)
	Total comprehensive income	-	-	-	1,294	10,601	-	164,336	176,231
	<b>Closing balances</b>	<b>24,000</b>	<b>52,743</b>	<b>66,678</b>	<b>(3,586)</b>	<b>12,997</b>	<b>72,418</b>	<b>164,336</b>	<b>389,586</b>

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

# OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

## CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE PERIODS 1 JANUARY - 31 DECEMBER 2018 AND 2017

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

	Notes	(Audited) 1 January – 31 December 2018	(Audited) 1 January – 31 December 2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		<b>280,354</b>	<b>204,043</b>
Net profit for the period		164,336	99,423
<b>Adjustments to reconcile income before taxes to net cash flows from operating activities:</b>		<b>269,107</b>	<b>270,516</b>
<b>Depreciation and amortization</b>	12, 13	<b>60,772</b>	<b>62,108</b>
<b>Adjustments in relation to impairment:</b>		<b>14,805</b>	<b>5,078</b>
- Provision for doubtful receivables	8	9,485	5,084
- Provision for inventories	10, 21	5,320	(6)
<b>Adjustments in relation to provision:</b>		<b>95,600</b>	<b>64,404</b>
- Provision for employee benefits	16, 21	16,417	8,942
- Warranty provision expenses	15, 21	46,276	55,462
- Adjustments for other provisions		32,907	-
<b>Adjustments in relation to interest income and expenses:</b>		<b>116,632</b>	<b>94,732</b>
- Interest income on time deposits	23	(3,977)	(1,050)
- Interest expense on borrowings	24	120,609	95,782
<b>Adjustments in relation to unrealised foreign exchange gains and losses</b>		<b>17,283</b>	<b>38,861</b>
<b>Adjustments in relation to fair value gains and losses</b>		<b>(26,099)</b>	<b>6,583</b>
- Fair value losses/(gains) on financial derivative instruments, net	22	(26,099)	6,583
<b>Adjustments for undistributed profits of investments accounted for using equity method</b>		<b>(12,182)</b>	<b>-</b>
Adjustments for undistributed profits of joint ventures	5	(12,182)	-
<b>Adjustments in relation to gains or losses on sales of property, plant and equipment</b>		<b>2,454</b>	<b>(1,250)</b>
- Gain on sale of property, plant and equipments		2,454	(1,250)
<b>Other adjustments of profit (loss) reconciliation</b>		<b>(158)</b>	<b>-</b>
<b>Changes in net working capital</b>		<b>(116,166)</b>	<b>(108,993)</b>
<b>Change in trade receivables</b>		<b>(433,074)</b>	<b>(62,911)</b>
<b>Change in due from customers on contract works</b>		<b>312,030</b>	<b>(66,200)</b>
<b>Change in inventories</b>		<b>(282,277)</b>	<b>80,820</b>
<b>Change in trade payables</b>		<b>207,342</b>	<b>(339,028)</b>
<b>Other changes</b>		<b>79,813</b>	<b>278,326</b>
- Changes in other operating assets		162,362	52,119
- Changes in other operating liabilities		(82,549)	226,207
<b>Cash flows from operations</b>		<b>317,277</b>	<b>260,946</b>
<b>Payments in relation to employee benefits</b>	16	<b>(7,059)</b>	<b>(5,201)</b>
<b>Payments in relation to other provisions</b>	15	<b>(55,563)</b>	<b>(43,782)</b>
<b>Deductions/(payments) in relation to income tax</b>		<b>(632)</b>	<b>(66)</b>
<b>Other cash collections/(payments)</b>		<b>26,331</b>	<b>(7,854)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		<b>(130,485)</b>	<b>(94,697)</b>
<b>Cash outflows from purchases due to obtaining control of subsidiaries</b>		<b>(1,351)</b>	<b>4,532</b>
<b>Proceeds from sale of property, plant and equipment and intangible assets</b>		<b>(1,351)</b>	<b>4,532</b>
- Proceeds from sale of property, plant and equipment		(129,134)	(99,229)
<b>Cash outflows due to purchase of property, plant and equipment and intangible assets</b>	12	<b>(19,140)</b>	<b>(13,273)</b>
- Purchase of property, plant and equipment	13	(109,994)	(85,956)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		<b>(200,026)</b>	<b>79,947</b>
<b>Cash inflow from to borrowings</b>		<b>1,363,530</b>	<b>1,119,456</b>
- Proceeds from bank borrowings	6	1,363,530	1,119,456
<b>Cash outflow due to repayment of borrowings</b>		<b>(1,394,191)</b>	<b>(893,393)</b>
- Repayments of borrowings	6	(1,394,191)	(893,393)
<b>Dividends paid</b>		<b>(70,000)</b>	<b>(60,000)</b>
<b>Interest paid</b>		<b>(103,342)</b>	<b>(87,166)</b>
<b>Interest received</b>		<b>3,977</b>	<b>1,050</b>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS BEFORE THE EFFECT OF CURRENCY TRANSLATION DIFFERENCES</b>		<b>(50,157)</b>	<b>189,293</b>
<b>Currency translation difference on cash and cash equivalents</b>		<b>(5,784)</b>	<b>1,067</b>
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>		<b>(55,941)</b>	<b>190,360</b>
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD</b>	4	<b>228,958</b>	<b>38,598</b>
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD</b>	4	<b>173,017</b>	<b>228,958</b>

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

# OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

## NOTES TO CONSOLIDATED YEARS ENDED FINANCIAL STATEMENTS AT 31 DECEMBER 2018 AND 2017

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

### NOTE 1 - GROUP'S ORGANIZATION AND NATURE OF OPERATIONS

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

The Company operates in the automotive industry and off road vehicles, 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:

<b>Subsidiaries</b>	<b>Country</b>	<b>Main activity</b>	<b>Field of activity</b>
Otokar Europe SAS	France	Sales and marketing	Otomotive
Otokar Land Systems LLC	United Arab Emirates	Sales and marketing	Otomotive
Otokar Europe Filiala Bucuresti SRL	Romania	Sales and marketing	Otomotive

  

<b>Joint Ventures</b>	<b>Country</b>	<b>Main activity</b>	<b>Field of activity</b>
Al Jasoor Heavy Vehicles Industry	United Arab Emirates	Sales and marketing	Otomotive

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

Otokar Land Systems had not been subjected to consolidation scope in the prior reporting periods due to immaterial operating activities and it had been accounted under "Financial Investments".

Starting from current year, its operating activities became material and of Otokar Land Systems has been included in the consolidation scope as of 1 October 2018.

Europe Filiala Bucuresti S.R.L. which is subsidiary of Otokar Europe SAS was established on 28 February 2018 in order to organise export activities in Romania and to increase its international sales especially in this region. Filiala Bucuresti S.R.L. has been included in scope of consolidation as of 1 October 2018 since its operating activities became material.

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

	<b>2018</b>		<b>2017</b>	
	<b>Period end</b>	<b>Average</b>	<b>Period end</b>	<b>Average</b>
<b>Total personnel number</b>	1,966	2,044	2,147	2,205

The consolidated financial statements for the year ended 31 December 2018 were authorized for issue and signed by the Board of Directors of Otokar on 6 February 2019. The accompanying consolidated financial statements may be amended by the General Assembly.

# OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

## NOTES TO CONSOLIDATED YEARS ENDED FINANCIAL STATEMENTS AT 31 DECEMBER 2018 AND 2017

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

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

Otokar is registered to the Capital Market Board ("CMB") and its shares are listed on the Borsa Istanbul A.Ş. ("BIST") since 1995. As of 31 December 2018, 27.45% of the shares are quoted on the BIST.

As of 31 December 2018, the principal shareholders and their respective shareholding percentages are as follows:

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

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

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

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

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

### NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

#### 2.1 Basis of presentation of consolidated financial statements

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

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

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

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

# OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

## NOTES TO CONSOLIDATED YEARS ENDED FINANCIAL STATEMENTS AT 31 DECEMBER 2018 AND 2017

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

---

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

#### 2.1 Basis of presentation of consolidated financial statements (Continued)

##### Functional and presentation currency

Items included in the consolidated financial statements of the Subsidiaries and Joint Ventures of the Group are measured using the currency of the primary economic environment in the entity operates ("the functional currency"). The consolidated financial statements are presented in TL, which is the Company's functional and presentation currency.

In accordance with the CMB's resolution dated 17 March 2005 and numbered 11/367, the financial statements were restated in accordance with International Accounting Standards (IAS) 29 (Financial Reporting in Hyperinflationary Economies) for the last time as of 31 December 2004, since the objective conditions which require the application of restatement of financial statements have not been realized and that based on the existing data CMB has foreseen that the indications whether such conditions are going to be realized in the future is no longer probable. Therefore, non-monetary assets, liabilities and equity items including the share capital as of 31 December 2018 and 31 December 2017 have been restated by applying the relevant conversion factors through carrying additions after 31 December 2004 at their nominal values.

##### Financial statements of foreign subsidiaries, joint ventures and associates

The assets and liabilities, presented in the financial statements of the foreign subsidiaries and joint ventures prepared in accordance with the Group's accounting policies, are translated into TL at the exchange rate at the date of the balance sheet whereas income and expenses are translated at the average exchange rates for the respective periods. Exchange differences resulting from using the exchange rates at the balance sheet date and the average exchange rates are recognised in the currency translation differences under the equity.

#### 2.2 Accounting errors and changes in accounting estimates

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

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

#### 2.3 Changes in accounting policies

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



# OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

## NOTES TO CONSOLIDATED YEARS ENDED FINANCIAL STATEMENTS AT 31 DECEMBER 2018 AND 2017

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

---

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

#### 2.3 Changes in accounting policies (Continued)

##### 2.3.1 TFRS 15 "Revenue From Contracts with Customers"

###### *Revenue recognition*

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

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

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

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

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

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

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

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

# OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

## NOTES TO CONSOLIDATED YEARS ENDED FINANCIAL STATEMENTS AT 31 DECEMBER 2018 AND 2017

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

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

#### 2.3 Changes in accounting policies (Continued)

##### *First time adoption of TFRS 15 "Revenue From Contracts with Customers"*

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

#### 2.3.2 TFRS 9 "Financial Instruments" Standard

##### *Classification and measurement*

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

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

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

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

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

# OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

## NOTES TO CONSOLIDATED YEARS ENDED FINANCIAL STATEMENTS AT 31 DECEMBER 2018 AND 2017

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

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

#### 2.3 Changes in accounting policies (Continued)

Financial liabilities	According to TAS 39 previous classification	According to TFRS 9 new classification
Derivative instruments	Fair value through profit or loss	Fair value through profit or loss
Borrowings	Amortised cost	Amortised cost
Trade payables	Amortised cost	Amortised cost

#### *Impairment*

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

#### *Trade receivables*

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

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

#### *First time adoption of TFRS 9 “Financial assets”*

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

# OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

## NOTES TO CONSOLIDATED YEARS ENDED FINANCIAL STATEMENTS AT 31 DECEMBER 2018 AND 2017

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

---

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

#### 2.3 Changes in accounting policies (Continued)

##### 2.3.3 New and revised standards and comments:

###### *a. Standards, amendments and interpretations applicable as at 31 December 2018*

- **TFRS 9, 'Financial instruments'**; effective from annual periods beginning on or after 1 January 2018. This standard replaces the guidance in TAS 39. It includes requirements on the classification and measurement of financial assets and liabilities; it also includes an expected credit losses model that replaces the current incurred loss impairment model.
- **TFRS 15, 'Revenue from contracts with customers'**; effective from annual periods beginning on or after 1 January 2018. TFRS 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 TFRS 15, 'Revenue from contracts with customers'**, effective from annual periods beginning on or after 1 January 2018. These amendments comprise clarifications of the guidance on identifying performance obligations, accounting for licences of intellectual property and the principal versus agent assessment (gross versus net revenue presentation). New and amended illustrative examples have been added for each of those areas of guidance. The IASB has also included additional practical expedients related to transition to the new revenue standard.
- **Amendments to TFRS 4, 'Insurance contracts'** regarding the implementation of TFRS 9, 'Financial Instruments'; effective from annual periods beginning on or after 1 January 2018. These amendments introduce two approaches: an overlay approach and a deferral approach. The amended standard will:
  - give all companies that issue insurance contracts the option to recognise in other comprehensive income, rather than profit or loss, the volatility that could arise when TFRS 9 is applied before the new insurance contracts standard is issued; and
  - give companies whose activities are predominantly connected with insurance an optional temporary exemption from applying TFRS 9 until 2021. The entities that defer the application of TFRS 9 will continue to apply the existing financial instruments standard TAS 39.
- **Amendment to TAS 40, 'Investment property'**; relating to transfers of investment property; effective from annual periods beginning on or after 1 January 2018. These amendments clarify that to transfer to, or from, investment properties there must be a change in use. To conclude if a property has changed use there should be an assessment of whether the property meets the definition. This change must be supported by evidence.

# OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

## NOTES TO CONSOLIDATED YEARS ENDED FINANCIAL STATEMENTS AT 31 DECEMBER 2018 AND 2017

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

---

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

#### 2.3 Changes in accounting policies (Continued)

- **Amendments to TFRS 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 TFRS 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.

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

- TFRS 1, 'First time adoption of TFRS', regarding the deletion of short-term exemptions for first-time adopters regarding TFRS 7, TAS 19 and TFRS 10,
  - TAS 28, 'Investments in associates and joint venture' regarding measuring an associate or joint venture at fair value.
- **IFRIC 22, 'Foreign currency transactions and advance consideration'**; effective from annual periods beginning on or after 1 January 2018. This IFRIC addresses foreign currency transactions or parts of transactions where there is consideration that is denominated or priced in a foreign currency. The interpretation provides guidance for when a single payment/receipt is made as well as for situations where multiple payments/receipts are made. The guidance aims to reduce diversity in practice.
- b. Standards, amendments and interpretations that are issued but not effective as at 31 December 2018:**
- **Amendment to TFRS 9, 'Financial instruments'**; effective from annual periods beginning on or after 1 January 2019. This amendment confirms that when a financial liability measured at amortised cost is modified without this resulting in de-recognition, a gain or loss should be recognised immediately in profit or loss. The gain or loss is calculated as the difference between the original contractual cash flows and the modified cash flows discounted at the original effective interest rate. This means that the difference cannot be spread over the remaining life of the instrument which may be a change in practice from TAS 39.
  - **Amendment to TAS 28, 'Investments in associates and joint venture'**; effective from annual periods beginning on or after 1 January 2019. These amendments clarify that companies account for long-term interests in associate or joint venture to which the equity method is not applied using TFRS 9.

**NOTES TO CONSOLIDATED YEARS ENDED FINANCIAL STATEMENTS  
AT 31 DECEMBER 2018 AND 2017**

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

---

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

**2.3 Changes in accounting policies (Continued))**

- **TFRS 16, 'Leases'**; effective from annual periods beginning on or after 1 January 2019, with earlier application permitted if TFRS 15 'Revenue from Contracts with Customers' is also applied. This standard replaces the current guidance in TAS 17 and is a farreaching change in accounting by lessees in particular. Under TAS 17, lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). TFRS 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 TFRS 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.
- **IFRIC 23, 'Uncertainty over income tax treatments'**; effective from annual periods beginning on or after 1 January 2019. This IFRIC clarifies how the recognition and measurement requirements of TAS 12 'Income taxes', are applied where there is uncertainty over income tax treatments. The TFRS IC had clarified previously that TAS 12, not TAS 37 'Provisions, contingent liabilities and contingent assets', applies to accounting for uncertain income tax treatments. IFRIC 23 explains how to recognise and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment. An uncertain tax treatment is any tax treatment applied by an entity where there is uncertainty over whether that treatment will be accepted by the tax authority. For example, a decision to claim a deduction for a specific expense or not to include a specific item of income in a tax return is an uncertain tax treatment if its acceptability is uncertain under tax law. IFRIC 23 applies to all aspects of income tax accounting where there is an uncertainty regarding the treatment of an item, including taxable profit or loss, the tax bases of assets and liabilities, tax losses and credits and tax rates.
- **TFRS 17, 'Insurance contracts'**; effective from annual periods beginning on or after 1 January 2021. This standard replaces TFRS 4, which currently permits a wide variety of practices in accounting for insurance contracts. TFRS 17 will fundamentally change the accounting by all entities that issue insurance contracts and investment contracts with discretionary participation features.

# OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

## NOTES TO CONSOLIDATED YEARS ENDED FINANCIAL STATEMENTS AT 31 DECEMBER 2018 AND 2017

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

---

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

#### 2.3 Changes in accounting policies (Continued)

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

- TFRS 3, 'Business combinations', – a company remeasures its previously held interest in a joint operation when it obtains control of the business.
- TFRS 11, 'Joint arrangements', – a company does not remeasure its previously held interest in a joint operation when it obtains joint control of the business.
- TAS 12, 'Income taxes' – a company accounts for all income tax consequences of dividend payments in the same way.
- TAS 23, 'Borrowing costs' – a company treats as part of general borrowings any borrowing originally made to develop an asset when the asset is ready for its intended use or sale.

- **Amendments to TAS 19, 'Employee benefits' on plan amendment, curtailment or settlement';** effective from annual periods beginning on or after 1 January 2019. These amendments require an entity to:

- use updated assumptions to determine current service cost and net interest for the remainder of the period after a plan amendment, curtailment or settlement; and
- recognise in profit or loss as part of past service cost, or a gain or loss on settlement, any reduction in a surplus, even if that surplus was not previously recognised because of the impact of the asset ceiling.

- **Amendments to TAS 1 and TAS 8 on the definition of material;** effective from Annual periods beginning on or after 1 January 2020. These amendments to TAS 1, 'Presentation of financial statements', and TAS 8, 'Accounting policies, changes in accounting estimates and errors', and consequential amendments to other TFRSs:

- i) use a consistent definition of materiality throughout TFRSs and the Conceptual Framework for Financial Reporting;
- ii) clarify the explanation of the definition of material; and
- iii) incorporate some of the guidance in TAS 1 about immaterial information.

- **Amendments to TFRS 3 - definition of a business;** effective from Annual periods beginning on or after 1 January 2020. This amendment revises the definition of a business. According to feedback received by the IASB, application of the current guidance is commonly thought to be too complex, and it results in too many transactions qualifying as business combinations.

# OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

## NOTES TO CONSOLIDATED YEARS ENDED FINANCIAL STATEMENTS AT 31 DECEMBER 2018 AND 2017

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

---

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

#### 2.3 Changes in accounting policies (Continued)

##### 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 consolidated financial statements as of 31 December 2018 are as follows. The Group will make the necessary changes if not indicated otherwise, which will be affecting the consolidated financial statements and disclosures, when the new standards and interpretations become effective.

##### IFRS 16 Leases

The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption. As a result, all right-of-use assets will be measured at the amount of the lease liability on adoption (adjusted for any prepaid or accrued lease expenses). As at the reporting date, the assessment of the Group related to the impacts of IFRS 16 on its consolidated financial statements continues. These studies are managed by the Group including all its subsidiaries. The Group's activities as a lessor are not material.

#### 2.4 Significant accounting judgments and estimates

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

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

- a) In the context of TAS 11 "Construction contracts" assumptions are made related to total cost of and profitability of projects.
- b) Deferred tax asset is recognised to the extent that taxable profit will be available against which the deductible temporary differences can be utilized. When taxable profit is probable, deferred tax asset is recognised for all deductible temporary differences. For the year ended 31 December 2017, since the Management believed the indicators demonstrating that the Group will have taxable profits in the foreseeable future- are reliable, deferred tax asset has been recognized.
- c) The Group determines warranty provision by considering the past warranty expenses and remaining warranty period per vehicle.
- d) The Group has made certain important assumptions based on experiences of technical personnel in determining useful economic lives of property, plant and equipment and intangible assets.
- e) The Group has made certain assumptions based on experiences of technical personnel in determining impairment for inventories.



# OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

## NOTES TO CONSOLIDATED YEARS ENDED FINANCIAL STATEMENTS AT 31 DECEMBER 2018 AND 2017

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

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

#### 2.5 Summary of significant accounting policies

##### Group accounting

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

##### *Subsidiaries*

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

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

##### *Disposal of a subsidiary*

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

The table below sets out the subsidiaries of the Company and shows the total interest of the Company in these companies at 31 December 2018 and 2017:

Subsidiaries	2018		2017	
	Direct and indirect ownership (%)	Proportion of effective interest (%)	Direct and indirect ownership (%)	Proportion of effective interest (%)
Otokar Europe SAS	100	100	100	100
Otokar Land Systems LLC	100	100	100	100
Otokar Europe Filiala Bucuresti SRL	100	100	-	-

# OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

## NOTES TO CONSOLIDATED YEARS ENDED FINANCIAL STATEMENTS AT 31 DECEMBER 2018 AND 2017

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

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

#### 2.5 Summary of significant accounting policies (Continued)

##### *Joint Ventures*

Joint Ventures are companies in respect of which there are contractual arrangements through which an economic activity is undertaken subject to joint control by Otokar and one or more other parties. Otokar exercises such joint control through direct and indirect voting rights related to the shares held by itself and/or through the voting rights related to the shares held by Otokar and the companies owned by them. "TFRS 11 Joint Arrangements", effective for the annual periods on or after 1 January 2013, supersedes "TAS 31 Shares in Joint Ventures" and requires the application of the equity method for the consolidation of interests in joint ventures in accordance with "TAS 28 Investments in Associates and Joint Ventures".

Under the equity method, the investment in a joint venture is initially recognised at cost and the carrying amount is increased or decreased to recognise the investor's share of profit or loss of the investee after the date of the acquisition. The investor's share of the profit or loss of the investee is recognised in the investor's profit or loss. Distributions (dividends etc.) received from an investee reduce the carrying amount of the investment. Adjustments to the carrying amount are necessary for the change in the investor's proportionate interest in the investee arising from changes in the investee's other comprehensive income.

The table below sets out all joint ventures and shows the direct and indirect ownership and proportion of effective interest of the Group in these joint ventures at 31 December 2018 and 2017:

Joint ventures	2018		2017	
	Direct and indirect ownership (%)	Proportion of effective interest (%)	Direct and indirect ownership (%)	Proportion of effective interest (%)
Al Jasoor Heavy Vehicles Industry LLC (*)	49	49	49	49

(\*) Al Jasoor Heavy Vehicles Industry LLC, owned 49% of shares by Otokar Land Sytems LLC which is a subsidiary of the Group, was established on 28 May 2017 with the purpose of selling and marketing in the UAE.

#### Revenue recognition

Group recognizes revenue when the goods or services is transferred to the customer and when performance obligation is fulfilled. Goods is counted to be transferred when the control belongs to the customer.

Group recognizes revenue based on the following main principles:

- Identification of customer contracts
- Identification of performance obligations
- Determination of transaction price in the contract
- Allocation of price to performance obligations
- Recognition of revenue when the performance obligations are fulfilled

# OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

## NOTES TO CONSOLIDATED YEARS ENDED FINANCIAL STATEMENTS AT 31 DECEMBER 2018 AND 2017

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

---

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

#### 2.5 Summary of significant accounting policies (Continued)

Group recognized revenue from its customers only when all of the following criteria are met:

- (a) The parties to the contract have approved the contract (in writing, orally or in accordance with other customary business practices) and are committed to perform their respective obligations,
- (b) Group can identify each party's rights regarding the goods or services to be transferred,
- (c) Group can identify the payment terms for the goods or services to be transferred;
- (d) The contract has commercial substance,
- (e) It is probable that Group will collect the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer.

In evaluating whether collectability of an amount of consideration is probable, an entity shall consider only the customer's ability and intention to pay that amount of consideration when it is due.

Service revenue is recognized in the period services given. Service revenue in the context of repair maintenance agreements for more than one year are recognized in equal installments (straight line method) during the agreement periods and amounts belonging to the following periods are booked as deferred revenue.

When the arrangement effectively constitutes a financing transaction, the fair value of the consideration is determined by discounting all future receipts using an imputed rate of interest. The difference between the fair value and the nominal amount of the consideration is recognized on an accrual basis as financial income.

Interest income is recognised using the effective interest rate until maturity and considering the effective interest rate.

#### Revenue from sale of goods

Group recognizes revenue based on the production and sale of armoured vehicles, bus and minibus. Revenue is recognized when the control of the goods is transferred to the customer. In addition, Group provides legal warranty commitment to its customers depending on the type of goods and the location of sale between 1-2 years. These legal warranty commitments are mandatory by regulations, have not a separate price apart from the good and are not separately sold. Therefore, they are not treated as a separate good or service apart from the sale of good.

#### Revenue from sale of extended warranty

Group sells extended warranty to its customer for the period after the termination of legal warranty provided for all goods. The price of extended warranty is determined separately from the price of the goods and it is a separate performance obligation in the contract. Therefore, Group treats the service that will be provided due to the sale of extended warranty as a separate performance obligation.

# OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

## NOTES TO CONSOLIDATED YEARS ENDED FINANCIAL STATEMENTS AT 31 DECEMBER 2018 AND 2017

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

---

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

#### 2.5 Summary of significant accounting policies (Continued)

##### Related parties

- a) A person or a close member of that person's family is related to a reporting entity if that person:
- (i) has control or joint control over the reporting entity,
  - (ii) has significant influence over the reporting entity; or
  - (iii) is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.
- (b) In the existence of any instances stated below, the entities shall be considered as related parties to the Company:
- (i) Entity and Company are member of same group.
  - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
  - (iii) Both entities are joint ventures of the same third party.
  - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
  - (v) The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.
  - (vi) The entity is controlled or jointly controlled by a person identified in (a).
  - (vii) A person identified in (a) (i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

##### Inventories

Inventories are valued at the lower of cost or net realizable value. Cost incurred in bringing each product to its present location and conditions are included in the cost of inventory.

Raw materials and merchandises - cost is determined on a weighted average basis over the costs net of imputed interest.

Finished goods and work-in progress -cost of direct materials and labor and a proportion of manufacturing overheads are included based on normal operating capacity using average cost method.

Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale (Note 10).

# OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

## NOTES TO CONSOLIDATED YEARS ENDED FINANCIAL STATEMENTS AT 31 DECEMBER 2018 AND 2017

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

---

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

#### 2.5 Summary of significant accounting policies (Continued)

##### Property, plant and equipment

All property and equipments are initially recorded at cost and then are carried at restated cost until 31 December 2004 with the index of the related purchase date. Property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment loss.

The initial cost of property and equipment comprises its purchase price, including import duties and non-refundable purchase taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after property, plant and equipment have been put into operation, such as repairs and maintenance, are normally charged to income in the year the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of property and equipment.

The useful lives and depreciation methods are reviewed periodically to ensure that the method and period of depreciation are consistent with the expected pattern of economic benefits from items of property, plant and equipment.

Depreciation is provided on cost or revalued amount of property, plant and equipment on a straight line basis. Estimated useful lives are as follows:

Land improvements	25-30 years
Building	3-30 years
Machinery and equipment	3-15 years
Vehicles	4-9 years
Furniture and fixtures	5-15 years
Leasehold improvements	5 years

Land is not amortized since it has an unlimited economic life.

Gains and losses on sale of property, plant and equipment are included in investment activity income and expense.

##### Intangible assets

Intangible assets mainly comprise software rights, information systems, project costs related to new product development and computer software. Intangible assets are initially stated at cost and are restated until 31 December 2004 with the index of the related purchase date. Intangible assets are stated at cost less accumulated depreciation and accumulated impairment loss.

# OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

## NOTES TO CONSOLIDATED YEARS ENDED FINANCIAL STATEMENTS AT 31 DECEMBER 2018 AND 2017

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

---

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

#### 2.5 Summary of significant accounting policies (Continued)

Intangible assets are amortized on a straight-line basis over the estimate of their useful lives, which is up to 5 years. Intangible assets are recognized if it is probable that the future economic benefits that are attributable to the asset will flow to the enterprise; and the cost of the asset can be measured reliably. Where the carrying amount of an intangible asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

#### Research and development expenses

Research expenditures are recognized as an expense when they are incurred.

Intangible assets arising from in-house development activities (or the improvement phase of an intergroup project) are recognized when all of the following conditions are met:

- existence of the technical feasibility of completing the intangible asset so that it will be available for use or sale,
- existence of the intention to complete the intangible asset and use or sell it,
- existence of the ability to use or sell the intangible asset,
- reliability of how the intangible asset will generate probable future economic benefits,
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset and
- existence of the ability to measure reliably the expenditure attributable to the intangible asset during its development.

Other development expenditures are recognized as an expense as incurred. Development costs previously recognized as an expense are not capitalized as an asset in a subsequent period. Capitalized development expenses are amortized in expected useful life which is 5 years by straight-line method effective from the start of the production.

#### Investment, research and development incentives

Government grants are recognized where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognized as income over the period necessary to match the grant on a systemic basis to the costs that it is intended to compensate. Where the grant relates to an asset, it is recorded as deferred income.

Investment and research and development incentives are recognized when the Company's incentive requests (applications) are approved by fiscal authorities.

# OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

## NOTES TO CONSOLIDATED YEARS ENDED FINANCIAL STATEMENTS AT 31 DECEMBER 2018 AND 2017

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

---

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

#### 2.5 Summary of significant accounting policies (Continued)

##### Income taxes

Income tax is the aggregate amount included in the determination of net profit or loss for the year in respect of current and deferred tax.

The current income tax charge is calculated in accordance with the tax laws enacted or substantively enacted at the balance sheet date in Turkey. Under the Turkish Tax Code, companies having head office or place of business in Turkey are subject to corporate tax. A provisional tax accrual is recognized in the financial statements for current taxation. Current tax charge is calculated over operational results considering the effects of disallowable and exemptions.

Furthermore, provisional corporate taxes are paid at 20% over profits declared for interim periods in order to be deducted from the final corporate tax.

Under the Turkish taxation system, tax losses can be carried forward to be offset against future taxable income for five years. Tax losses cannot retrospectively offset against the profits of previous years.

Deferred income tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred income tax assets are recognised for all deductible temporary differences and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. The carrying amount of deferred income tax assets is reviewed by the Company at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized.

Deferred tax assets and liabilities are presented net in the consolidated financial statements.

##### Employee benefits

##### Defined benefit plans:

##### Employment termination benefits

In accordance with existing social legislation in Turkey, the Company is required to make lump-sum termination indemnities to each employee who has completed over one year of service with the Company and whose employment is terminated due to retirement or for reasons other than resignation or misconduct.

# OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

## NOTES TO CONSOLIDATED YEARS ENDED FINANCIAL STATEMENTS AT 31 DECEMBER 2018 AND 2017

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

---

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

#### 2.5 Summary of significant accounting policies (Continued)

In the financial statements, the Company has recognized a liability using the "Projected Method" based upon factors derived using the Company's experience of personnel terminating and being eligible to receive benefits, discounted by using the current market yield at the balance sheet date on government bonds. All actuarial gains and losses are recognized in the statement of other comprehensive income.

#### Foreign currency transactions

Transactions in foreign currencies during the year have been translated at the exchange rates prevailing at the dates of such transactions. Monetary balance sheet items denominated in foreign currencies have been translated at the Central Bank of Turkey (TCB) exchange rates prevailing at the balance sheet date.

#### Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Provisions are revised at each balance sheet date and amended in order to reflect management's recent estimations

#### Contingent liabilities and assets

Assets and liabilities that originate from past incidents and whose presence is not fully under the entity's control as it can only be confirmed through the realization of one or more indefinite incidents to take place in the future are not included in the financial statements and are considered as contingent liabilities and assets.

Contingent liabilities are not recognized in the financial statements. They are disclosed only, if the probability of outflow of resources embodying economic benefits is not highly probable. A contingent asset is not recognized in the financial statements but disclosed when an inflow of economic benefits is mostly probable.

#### Share capital and dividend

Ordinary shares are classified under share capital. Dividend distribution on ordinary shares is recognized as an appropriation of profit in the period in which they are declared.

#### Operational leases

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.



# OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

## NOTES TO CONSOLIDATED YEARS ENDED FINANCIAL STATEMENTS AT 31 DECEMBER 2018 AND 2017

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

---

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

#### 2.5 Summary of significant accounting policies (Continued)

##### Warranty expenses

Warranty expenses are recorded as a result of repair and maintenance expenses for products produced and sold, authorized services' labor and material costs for products under the scope of the warranty terms without any charge to the customers, initial maintenance costs and estimated costs based on statistical information for possible future warranty services and returns of products with respect to the products sold during the year.

##### Financial instruments

###### Financial assets

The Group classifies its financial assets in the following categories: amortised cost and fair value through profit or loss. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Financial assets measured at amortised cost

Financial assets measured at amortised cost are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. Trade receivables and cash and cash equivalents are classified in this category.

Financial assets carried at fair value through profit or loss

Financial assets carried at fair value through profit or loss comprise of "derivative instruments" in the statement of financial position. Derivative instruments are recognized as asset when the fair value of the instrument is positive, as liability when the fair value of the instrument is negative.

##### Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and at banks and short-term highly liquid and the risk of value change is not material investments including time deposits generally having original maturities of three months or less.

Bank accounts consist of time and demand deposit accounts and the related interest accrued. The Turkish Lira balances are stated at face values and the foreign currency balances are translated into Turkish Lira at the foreign currency rate issued by the Central Bank as at the report date. Time deposit accounts are stated as calculated by adding accrued interest as of balance sheet date on the principle amount.

# OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

## NOTES TO CONSOLIDATED YEARS ENDED FINANCIAL STATEMENTS AT 31 DECEMBER 2018 AND 2017

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

---

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

#### 2.5 Summary of significant accounting policies (Continued)

##### Trade receivables

Trade receivables and notes and post-dated checks classified within trade receivables which are recognized at original invoice amount are measured at amortized cost using the effective interest rate method. Short term trade receivables without specified interest rate, are measured at invoice amount when the interest accrual effect is immaterial.

A credit risk provision for trade receivables is established if there is objective evidence that the Group will not be able to collect all amounts due. The allowance is an estimated amount which is difference between existing receivable and collectible amount. Collectible amount is the discounted value of trade receivables, all cash flows including collections from guarantees by using original effective interest rate.

Group may enter into factoring agreement for its trade receivables and the amount provided from factoring companies is recorded as financial liability in the consolidated financial statements.

Post dated cheques received with maturity dates exceeding the balance sheet date are classified in trade receivables and are rediscounted using the interest rates determined for government debt securities by considering the interest levels arising in the stock exchanges or other organized markets.

A credit risk provision for trade receivables is established if there is objective evidence that the Group will not be able to collect all such receivables. The allowance for doubtful receivables is established through a provision charged to expenses. Provision is made when there is objective evidence that the Group will not be able to collect the debts. The allowance is an estimated amount that management believes to be adequate to absorb possible future losses on existing receivables that may become uncollectible due to current economic conditions and inherent risks in the receivables. Bad debts are written off when identified. Provision for doubtful receivables is recognized as an expense when identified.

If a portion or the entire amount of a receivable is collected after provided for a provision, the collected amount is deducted from total provision and is recognized as an income in the comprehensive income statement.

Group has preferred to apply "simplified approach" defined in IFRS 9 for the recognition of impairment losses on trade receivables, carried at amortised cost and that do not comprise of any significant finance component (those with maturity less than 12 months). In accordance with the simplified approach, Group measures the loss allowances regarding its trade receivables at an amount equal to "lifetime expected credit losses" except incurred credit losses in which trade receivables are already impaired for a specific reason.

##### Trade payables

Trade payables are recognized initially at fair value of and subsequently measured at amortized cost using the effective interest method.

# OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

## NOTES TO CONSOLIDATED YEARS ENDED FINANCIAL STATEMENTS AT 31 DECEMBER 2018 AND 2017

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

---

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

#### 2.5 Summary of significant accounting policies (Continued)

##### **Borrowings**

Short and long term bank loans are stated at the value computed through addition of the principal amount and the interest expenses accrued as of the balance sheet date.

Borrowings are recognized initially at proceeds received, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost using the effective yield method; any difference between the proceeds and redemption value is recognized in the comprehensive income statement over the period of the borrowings.

##### **Derivative financial instruments**

Derivative financial instruments are initially recognised in the balance sheet at cost and subsequently are re-measured at their fair value. The derivative instruments of the Company mainly consist of foreign exchange forward contracts and related transactions. These derivative transactions, even though providing effective economic hedges under the Company risk management position, do not generally qualify for hedge accounting, therefore treated as 'derivative financial instruments held for trading. Any gains or losses arising from changes in the fair value of such kind of financial instruments are recognized under statement of profit and loss.

##### *Impairments in financial assets*

Financial assets are assessed at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that had occurred after the initial recognition of the asset and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. For loans and receivables impairment loss has been incurred the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows.

Except for trade receivables, which is reduced through the use of an allowance account, impairment on all other financial assets are directly written off in the related account. In case trade receivables cannot be collected, the related amount is written off from allowance account. The change in allowance account is accounted in the comprehensive income statement.

##### *Recognition and derecognition of financial assets and liabilities*

The Group recognizes a financial asset or financial liability in its balance sheet only when it becomes a party to the contractual provisions of the instrument. The Group derecognizes a financial asset or a portion of it only when the control on rights under the contract is discharged. The Company derecognizes a financial liability when the obligation under the liability is discharged, cancelled or expires.

All regular way financial asset purchase and sales are recognized at the date of the transaction, the date the Group committed to purchase or sell. The mentioned purchases or sales are ones which require the delivery of the financial assets within the time interval identified with the established practices and regulations in the market.

# OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

## NOTES TO CONSOLIDATED YEARS ENDED FINANCIAL STATEMENTS AT 31 DECEMBER 2018 AND 2017

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

---

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

#### 2.5 Summary of significant accounting policies (Continued)

##### Foreign currency transactions

Monetary balance sheet items denominated in foreign currencies have been translated to Turkish Lira at the Central Bank of Turkey exchange rates prevailing at the balance sheet date. Exchange gains or losses arising on translation of foreign currency denominated assets and liabilities are included in the comprehensive income statement.

##### **Earnings per share**

Basic earnings per share are calculated by dividing the net profit by the weighted average number of ordinary shares outstanding during the year.

The 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 and share capital inflation adjustments. For the purpose of the earnings per share calculation such Bonus Share issues are regarded as stock dividends. Accordingly, the weighted average number of shares used in earnings per share calculation is derived by giving retroactive effect to the issue of such shares.

##### **Subsequent events**

Subsequent events comprise all events occurred between the date of authorization of the financial statements for issuance and the balance sheet date.

The Group updates its financial statements and respective disclosures that relate to conditions that existed at the end of the reporting period to regarding any new information that they receive after the reporting period which require amendment. Non-adjusting events are solely disclosed if they are of such importance.

##### **Impairment of non-financial assets**

At each reporting date, the Company assesses whether there is any indication that carrying value of assets except financial assets and deferred tax assets is impaired or not. When an indicator of impairment exists, the Company estimates the recoverable values of such assets. When individual recoverable value of assets cannot be measured, recoverable value of cash generating unit of that asset is measured.

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. Recoverable amount is the higher of net selling price or value in use. Net selling price is determined by deducting any expenses to be incurred for the sale of an asset from the fair value of the asset. Value in use is calculated as the discounted value of the estimated future cash flows the entity expects to receive from the asset.

# OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

## NOTES TO CONSOLIDATED YEARS ENDED FINANCIAL STATEMENTS AT 31 DECEMBER 2018 AND 2017

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

---

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

#### 2.5 Summary of significant accounting policies (Continued)

When recoverable amount of an asset (or a cash generating unit) is lower than its carrying value, the asset's carrying value is reduced to its recoverable amount. An impairment loss is recognized immediately in the comprehensive income statement.

An impairment loss recognized in prior periods for an asset is reversed if the subsequent increase in the asset's recoverable amount is caused by a specific event since the last impairment loss was recognized. Such a reversal amount cannot be higher than the previously recognized impairment and is recognized as income in the financial statements.

#### Borrowing costs

Borrowing costs comprise interest expense, foreign exchange losses arising from financing activities and other costs related with financing.

Borrowing costs directly attributable to the acquisition of qualifying assets are capitalised as part of the cost of the respective assets. Capitalization is ceased when the -operations to bring the qualifying asset ready for sale or use- are completed. Qualifying assets are those assets whose construction or production takes a substantial period of time to get ready for its intended use or sale.

Borrowing costs that are not in this scope are recognised directly in the income statement.

#### Offsetting

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liabilities simultaneously.

### NOTE 3 - SEGMENT REPORTING

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

Since Chief Executive Decision Makers (composed of key management, board members, general manager and assistant general managers) do not monitor cost of sales, operating expenses and financial expenses, the products are only monitored based on revenue (Note 19). Thus, segment reporting is not performed.

# OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

## NOTES TO CONSOLIDATED YEARS ENDED FINANCIAL STATEMENTS AT 31 DECEMBER 2018 AND 2017

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

### NOTE 4 - CASH AND CASH EQUIVALENTS

	31 December 2018	31 December 2017
<b>Banks</b>		
- time deposits	134,463	214,933
- demand deposits	37,799	12,434
Cheques and notes receivable	596	1,513
Other	159	78
	<b>173,017</b>	<b>228,958</b>

As of 31 December 2018, TL134,463 thousand of the total amount of time deposits amounting to TL120,917 thousand is denominated in foreign currency and the annual effective interest rate is 0.24% and has a maturity of 2 days. The annual effective interest rate of the remaining TL13,546 thousand is 21.75% and has a maturity of 2 days.

(As of 31 December 2017, TL214,933 thousand of the total amount of time deposits amounting to TL214,849 thousand is denominated in foreign currency and the annual effective interest rate is 1.00% and has a maturity of 3 days. The annual effective interest rate of the remaining TL84 thousand is 8.25% and has a maturity of 4 days.)

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

As of 31 December 2018, the Group has restricted bank deposit amounting to TL450 thousand (31 December 2017: TL0.2 thousand).

### NOTE 5 – INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

The details of carrying value and consolidation rate subject to equity accounting of joint venture is as follows :

Joint ventures	2018	
	(%)	Amount
Al Jasoor	49.00	13,305
The movement of joint venture is as follows:		
		2018
1 January		-
Shares of profit		12,182
Currency translation differences		1,123
31 December		13,305

# OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

## NOTES TO CONSOLIDATED YEARS ENDED FINANCIAL STATEMENTS AT 31 DECEMBER 2018 AND 2017

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

### NOTE 5 – INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (Continued)

The summary of the financial statements of Al Jasoor as of 31 December 2018 is as follows:

	31 December 2018
Total assets	1,547,656
Total liabilities	1,520,502
<b>Net assets</b>	<b>27,154</b>
Ownership of the Group	%49
<b>Net asset share of the Group</b>	<b>13,305</b>

### NOTE 6 - BORROWINGS

31 December 2018	Maturities	Annual effective interest rate (%)	TL
<b>Principals and interest accruals on the short-term portion of long-term borrowings (*)</b>			
Denominated in TL		14.27-14.44	207,281

(\*) Bearing fixed interest rate.

31 December 2018	Maturities	Annual effective interest rate (%)	TL
<b>Long-term bank borrowings (*)</b>			
Denominated in TL	9 March 2020 - 7 January 2021	16.28-33.55	440,000
Denominated in EUR	6 January 2020	3.85	60,266
			<b>500,266</b>

(\*) Bearing fixed interest rate

# OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

## NOTES TO CONSOLIDATED YEARS ENDED FINANCIAL STATEMENTS AT 31 DECEMBER 2018 AND 2017

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

### NOTE 6 - BORROWINGS (Continued)

31 December 2017	Maturities	Annual effective interest rate (%)	TL
<b>Short-term bank borrowings (*)</b>			
Denominated in TL (**)	2 January 2018	0.00	42
Payables from factoring activities	21 February 2018- 22 March 2018	16.38-18.01	429,206
			<b>429,248</b>

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

Denominated in TL	12.60-14.44	84,410
		<b>84,410</b>

31 December 2017	Maturities	Annual effective interest rate (%)	TL
<b>Long-term bank borrowings (*) (**)</b>			
Denominated in TL	1 February 2019- 20 February 2019	14.27 - 14.44	190,000
			<b>190,000</b>

(\*) Bearing fixed interest rate.

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

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

The movement of the borrowings for the years ended 31 December 2018 and 2017 are as follows:

	2018	2017
1 January	703,658	430,119
Borrowing received during the period	1,363,530	1,119,456
Principal payments (-)	(1,394,191)	(893,393)
Change in interest accruals	17,267	8,615
Change in exchange rates	17,283	38,861
<b>31 December</b>	<b>707,547</b>	<b>703,658</b>

	31 December 2018		31 December 2017	
	Carrying values	Fair values	Carrying values	Fair values
Fixed interest	707,547	730,140	703,658	705,614



# OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

## NOTES TO CONSOLIDATED YEARS ENDED FINANCIAL STATEMENTS AT 31 DECEMBER 2018 AND 2017

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

### NOTE 7 - DERIVATIVE FINANCIAL INSTRUMENTS

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

	Contract amount	Current period contract maturity	Fair value assets
<b>31 December 2018:</b>			
Forward transactions	940,306	10 January 2019- 7 February 2019	297
Short-term derivative financial instruments	940,306		297
<b>Total derivative financial instruments</b>	<b>940,306</b>		<b>297</b>

	Contract amount	Current period contract maturity	Fair value assets
<b>31 December 2017:</b>			
Forward transactions	259,323	4 January 2018- 25 January 2018	1,325
Short-term derivative financial instruments	259,323		1,325
<b>Total derivative financial instruments</b>	<b>259,323</b>		<b>1,325</b>

### NOTE 8 - TRADE RECEIVABLES AND PAYABLES

#### Trade receivables

	31 December 2018	31 December 2017
Trade receivables, net	426,547	268,152
Notes receivables, net	88,378	181,506
	<b>514,925</b>	<b>449,658</b>
Less: provision for doubtful receivables	(43,512)	(33,985)
<b>Short-term trade receivables</b>	<b>471,413</b>	<b>415,673</b>
Trade receivables from related parties (Note 27)	399,044	29,656
<b>Short-term trade receivables</b>	<b>870,457</b>	<b>445,329</b>
Long-term notes receivable, net	7,930	10,235
<b>Long-term trade receivables</b>	<b>7,930</b>	<b>10,235</b>

# OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

## NOTES TO CONSOLIDATED YEARS ENDED FINANCIAL STATEMENTS AT 31 DECEMBER 2018 AND 2017

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

### NOTE 8 - TRADE RECEIVABLES AND PAYABLES (Continued)

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

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

#### Guarantees received for trade receivables

Receivables of the Group are mainly composed of minibus and bus sales to dealers and trailer and armored vehicle sales. As of 31 December 2018, the total trade receivable from dealers amounting to TL59,217 thousand (31 December 2017: TL157,074 thousand), after provision provided for doubtful receivables, has been secured by mortgages and guarantees at the amount of TL59,635 thousand (31 December 2017: TL193,792 thousand). The Group manages the credit risk of remaining balance in the manner described in the Credit Risk section of Note 28 to the consolidated financial statements.

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

#### **31 December 2018**

1- 30 day past due	-
1- 3 month past due	-
3- 12 month past due	-
1- 5 year past due	255
Over 5 years past due	-
	<b>255</b>

<b>Amount secured with guarantees</b>	<b>255</b>
---------------------------------------	------------

#### **31 December 2017**

1- 30 day past due	-
1- 3 month past due	-
3- 12 month past due	-
1- 5 year past due	236
Over 5 years past due	-
	<b>236</b>

<b>Amount secured with guarantees</b>	<b>236</b>
---------------------------------------	------------

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

# OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

## NOTES TO CONSOLIDATED YEARS ENDED FINANCIAL STATEMENTS AT 31 DECEMBER 2018 AND 2017

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

### NOTE 8 - TRADE RECEIVABLES AND PAYABLES (Continued)

The movement of the provision for doubtful receivables for the years ended 31 December 2018 and 2017 are as follows:

	2018	2017
As of 1 January	33,985	28,910
Collections	(362)	(9)
Currency translation differences	404	232
Exchange differences	9,485	4,805
Increase during the year	-	47
<b>31 December</b>	<b>43,512</b>	<b>33,985</b>

#### Trade payables

	31 December 2018	31 December 2017
Trade payables, net	243,707	47,667
Notes payables, net	406	356

#### **Short-term other trade payables**

Trade payables to related parties (Note 27)	25,346	14,094
---	--------	--------

#### **Short-term trade payables**

As of 31 December 2018, average payment term for trade payables is 45-60 days (31 December 2017: 45-60 days).

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

### NOTE 9 - OTHER RECEIVABLES AND PAYABLES

#### Other short-term receivables

	31 December 2018	31 December 2017
Deposits and guarantees given	87	67
Due from personnel	217	1

#### **Total**

#### Other long-term receivables

	31 December 2018	31 December 2017
Deposits and guarantees given	707	281

#### **Total**

# OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

## NOTES TO CONSOLIDATED YEARS ENDED FINANCIAL STATEMENTS AT 31 DECEMBER 2018 AND 2017

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

### NOTE 9 - OTHER RECEIVABLES AND PAYABLES (Continued)

#### Other short-term payables

	31 December 2018	31 December 2017
Other miscellaneous payables	43,292	42,549
<b>Total</b>	<b>43,292</b>	<b>42,549</b>

As explained in Note 15, TL36,169 thousand (31 December 2017: TL36,169 thousand) of other miscellaneous payables was collected but not credited to statement of profit or loss, since the lawsuit in relation to deductible corporate tax from Research and Development expenses has not been finalised.

### NOTE 10 - INVENTORIES

	31 December 2018	31 December 2017
Raw material	295,244	163,088
Semi-finished goods	23,747	14,140
Finished goods	168,122	83,286
Merchandise goods	111,391	75,478
Goods in transit	97,501	77,764
Impairment for inventories (*)	(5,992)	(700)
	<b>690,013</b>	<b>413,056</b>

(\*) TL127 thousand of impairment is related to finished goods (31 December 2017: TL155 thousand) and TL562 thousand is related to merchandises (31 December 2017: TL545 thousand). The impairment has been accounted for under cost of sales.

The movements of impairment for inventories in 2018 and 2017 are as follows:

	2018	2017
1 January	(700)	(706)
Increase during the period	(5,320)	-
Reversal of provisions	28	6
<b>31 December</b>	<b>(5,992)</b>	<b>(700)</b>

### NOTE 11 - DUE FROM CUSTOMERS ON CONTRACT WORKS

As of 31 December 2018, there is no receivable balance related to due from customers on contract works (31 December 2017: TL 312,030 thousand).

# OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

## NOTES TO CONSOLIDATED YEARS ENDED FINANCIAL STATEMENTS AT 31 DECEMBER 2018 AND 2017

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

### NOTE 12 - PROPERTY, PLANT AND EQUIPMENT

Movements of property, plant and equipment and related accumulated depreciation for the years ended 31 December 2018

	1 January 2018	Additions	Currency translation differences	Disposal	Transferler	31 December 2018
<b>Cost</b>						
Land	37,457	-	-	-	-	37,457
Land improvements	12,355	13	-	(3,833)	48	8,583
Buildings	60,729	17	-	(2,368)	111	58,489
Machinery and equipment	110,616	7,953	258	(14,584)	2,327	106,570
Motor vehicles	9,608	1,117	-	(1,380)	-	9,345
Furniture and fixtures	38,938	5,095	105	(9,700)	3,705	38,143
Leasehold improvements	2,131	146	-	(1,188)	-	1,089
Construction in process	1,454	4,799	-	-	(6,249)	4
	<b>273,288</b>	<b>19,140</b>	<b>363</b>	<b>(33,053)</b>	<b>(58)</b>	<b>259,680</b>
<b>Accumulated depreciation</b>						
Land improvements	(7,962)	(303)	-	3,833	-	(4,432)
Buildings	(44,651)	(2,587)	-	2,368	-	(44,870)
Machinery and equipment	(90,556)	(5,046)	(156)	14,553	-	(81,205)
Motor vehicles	(5,403)	(719)	-	639	-	(5,483)
Furniture and fixtures	(21,911)	(2,650)	(80)	9,396	-	(15,245)
	(1,796)	(207)	-	1,161	-	(842)
	<b>(172,279)</b>	<b>(11,512)</b>	<b>(236)</b>	<b>31,950</b>	<b>-</b>	<b>(152,077)</b>
<b>Net book value</b>	<b>101,009</b>					<b>107,603</b>

Movements in property, plant and equipment and related accumulated depreciation for the year ended 31 December 2018 are as follows: (31 December 2017: None)

# OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

## NOTES TO CONSOLIDATED YEARS ENDED FINANCIAL STATEMENTS AT 31 DECEMBER 2018 AND 2017

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

### NOTE 12 - PROPERTY, PLANT AND EQUIPMENT (Continued )

Movements of property, plant and equipment and related accumulated depreciation for the years ended 31 December 2017

	1 January 2017	Additions	Currency translation differences	Disposal	Transferler	31 December 2017
<b>Cost</b>						
Land	37,457	-	-	-	-	37,457
Land improvements	11,970	10	-	-	375	12,355
Buildings	60,633	18	-	-	78	60,729
Machinery and equipment	106,176	4,479	128	(918)	751	110,616
Motor vehicles	9,613	1,315	-	(1,320)	-	9,608
Furniture and fixtures	33,986	4,132	42	(190)	968	38,938
Leasehold improvements	2,116	15	-	-	-	2,131
Construction in process	696	3,134	-	-	(2,376)	1,454
	<b>262,647</b>	<b>13,103</b>	<b>170</b>	<b>(2,428)</b>	<b>(204)</b>	<b>273,288</b>
<b>Accumulated depreciation</b>						
Land improvements	(7,479)	(483)	-	-	-	(7,962)
Buildings	(37,501)	(7,150)	-	-	-	(44,651)
Machinery and equipment	(86,576)	(4,813)	(64)	897	-	(90,556)
Motor vehicles	(5,633)	(661)	-	891	-	(5,403)
Furniture and fixtures	(18,839)	(3,212)	(31)	171	-	(21,911)
	(1,517)	(279)	-	-	-	(1,796)
	<b>(157,545)</b>	<b>(16,598)</b>	<b>(95)</b>	<b>1,959</b>	<b>-</b>	<b>(172,279)</b>
<b>Net book value</b>	<b>105,102</b>					<b>101,009</b>

The distribution of depreciation and amortization expenses of tangible and intangible assets for the years ended 31 December 2018 and 2017 are as follows:

	2018	2017
Research and development expenses	47,800	43,528
Costs related to uncompleted contracts	5,924	5,476
Cost of goods sold	2,324	1,987
Development projects in process	2,103	1,692
Depreciation on inventories	1,379	1,092
General administrative expenses	1,203	1,432
Selling and marketing expenses	236	95
Currency translation differences	39	6,806
	<b>61,008</b>	<b>62,108</b>

# OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

## NOTES TO CONSOLIDATED YEARS ENDED FINANCIAL STATEMENTS AT 31 DECEMBER 2018 AND 2017

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

### NOTE 13 - INTANGIBLE ASSETS

Movements of intangible assets and related accumulated amortisation for the years ended 31 December 2018

	1 January 2018	Additions	Currenc ifferences	Disposals	Tranfers	31 December 2018
<b>Cost</b>						
Other intangible assets	20,231	2,371	-	(4,411)	58	18,249
Development costs	345,703	167	-	-	81,700	427,570
Developments projects in progress	66,683	107,456	-	-	(81,700)	92,439
	<b>432,617</b>	<b>109,994</b>	<b>-</b>	<b>(4,411)</b>	<b>58</b>	<b>538,258</b>
<b>Accumulated amortization</b>						
Other intangible assets	(15,965)	(1,463)	-	4,411	-	(13,017)
Development costs	(196,788)	(47,797)	-	-	-	(244,585)
	<b>(212,753)</b>	<b>(49,260)</b>	<b>-</b>	<b>4,411</b>	<b>-</b>	<b>(257,602)</b>
<b>Net book value</b>	<b>219,864</b>					<b>280,656</b>

In 2018, the Group has capitalised TL 8,008 thousand (2017: TL 4,517 thousand) of its borrowing costs in relation to its qualifying asset.

For the year ended 31 December 2017, the movements of intangible assets and related amortization are as follows:

	1 January 2017	Additions	Currency tranlastion differences	Disposals	Tranfers	31 December 2017
<b>Cost</b>						
Other intangible assets	18,028	1,999	-	-	204	20,231
Development costs	297,383	-	-	(7,033)	55,353	345,703
Development projects in progress	38,079	83,957	-	-	(55,353)	66,683
	<b>353,490</b>	<b>85,956</b>	<b>-</b>	<b>(7,033)</b>	<b>204</b>	<b>432,617</b>
<b>Accumulated amortization:</b>						
Other intangible assets	(14,078)	(1,887)	-	-	-	(15,965)
Development costs	(157,480)	(43,528)	-	4,220	-	(196,788)
	<b>(171,558)</b>	<b>(45,415)</b>	<b>-</b>	<b>4,220</b>	<b>-</b>	<b>(212,753)</b>
<b>Net book value</b>	<b>181,932</b>					<b>219,864</b>

# OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

## NOTES TO CONSOLIDATED YEARS ENDED FINANCIAL STATEMENTS AT 31 DECEMBER 2018 AND 2017

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

### NOTE 14 - GOVERNMENT GRANTS AND INCENTIVES

	31 December 2018	31 December 2017
Short-term	1,283	1,940
Long-term	1,124	1,441
<b>Total</b>	<b>2,407</b>	<b>3,381</b>

Government incentives have been originated from deferral of research and development incentive premiums provided to support research and development expenditures of the Group's various projects by the Scientific & Technological Research Council of Turkey (TUBITAK). The related balance will be recognized as revenue in line with the amortization of the respective development costs..

### NOTE 15 - PROVISIONS, CONTINGENT ASSETS AND LIABILITIES

#### Short-term provisions

	31 December 2018	31 December 2017
Other cost allowance	-	324,431
Provision for warranty expenses	43,778	53,065
Employee benefits		
short-term provisions (Note 16)	10,443	9,286
Other	50,060	17,153
<b>Total</b>	<b>104,281</b>	<b>403,935</b>

#### Provision for other costs

Includes costs incurred by the Group related to tank project, which were not charged yet, and costs incurred by the subcontractors that will be invoiced to the Group at the end of the project, which were computed according to the estimated percentage of completion. The movement of provision for other costs is as follows:

	2018	2017
1 January	324,431	340,870
Exchange differences	241,180	18,398
Disposals/payments (-)	(565,611)	(34,837)
<b>31 December</b>	<b>-</b>	<b>324,431</b>

#### Warranty provision

The Group covers the vehicles it has sold for a period of 2 years. Accordingly, as of the balance sheet date, a provision is provided for the warranty expenses for the vehicles under warranty.



# OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

## NOTES TO CONSOLIDATED YEARS ENDED FINANCIAL STATEMENTS AT 31 DECEMBER 2018 AND 2017

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

### NOTE 15 - PROVISIONS, CONTINGENT ASSETS AND LIABILITIES (Continued)

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

	2018	2017
1 January	53,065	41,385
Additional provision	46,276	55,462
Claim payments	(55,563)	(43,782)
<b>31 December</b>	<b>43,778</b>	<b>53,065</b>

### Commitments and contingencies

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

	31 December 2018	31 December 2017
a. Total amount of guarantees, pledges and mortgages given the name of legal entity	1,379,859	1,853,700
b. Total amount of guarantees, pledges and mortgages given in favour of the parties which are included in the scope of full consolidation	-	-
c. Total amount of guarantees, pledges and mortgages given to third parties for their liabilities in the purpose of conducting the ordinary operations	-	-
d. Total amount of other guarantees, pledges and mortgages	-	-
<b>Total</b>	<b>1,379,859</b>	<b>1,853,700</b>

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

	31 December 2018		31 December 2017	
	Original currency	TL equivalent	Original currency	TL equivalent
USD	201,235	1,058,679	397,404	1,498,967
EUR	46,295	279,068	55,818	252,047
TL	42,112	42,112	102,686	102,686
<b>Total</b>		<b>1,379,859</b>		<b>1,853,700</b>

# OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

## NOTES TO CONSOLIDATED YEARS ENDED FINANCIAL STATEMENTS AT 31 DECEMBER 2018 AND 2017

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

### NOTE 15 - PROVISIONS, CONTINGENT ASSETS AND LIABILITIES (Continued)

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

	31 December 2018	31 December 2017
<b>Guarantee letters given</b>		
Under secretariat of Ministry of Defense	251,984	1,090,079
Other	1,127,875	763,621
<b>Total</b>	<b>1,379,859</b>	<b>1,853,700</b>

#### Guarantee letters

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

	31 December 2018	31 December 2017
Bank letters of guarantee (*)	1,379,859	1,853,700
	<b>1,379,859</b>	<b>1,853,700</b>

(\*) Bank letters of guarantee amounting to TL155,933 are given to Secretariat of Ministry of Defense for Altay Project (31 December 2017: TL938,865).

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

	31 December 2018	31 December 2017
Bank letters of guarantee (**)	336,045	651,824
Guarantee notes	20,195	14,550
Mortgages received	20	20
<b>Total</b>	<b>356,260</b>	<b>666,394</b>

(\*\*) Bank letters of guarantee amounting to TL49,446 are obtained from the sub-contractors for Altay Project (31 December 2017: TL340,829).

#### Contingent asset

The legal case related to tax deduction for the research and development activities in 2011-2012-2013-2014 was concluded in favor of the Group and the same cases is still in progress at appeal phase. Total amount of cases at the appeal phase amount to TL36,169. The amount of the legal case for 2015 is TL4,557. The case was also concluded in favor of the Group but the appeal phase is still in progress. It was learned on 31 May 2018 by the decision of the Company Management that the appeal process ended in favor of the Group. The administration has sent an appeal to the Council of State to appeal the decision in favor of the Group and the appeal stage continues.

# OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

## NOTES TO CONSOLIDATED YEARS ENDED FINANCIAL STATEMENTS AT 31 DECEMBER 2018 AND 2017

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

### NOTE 16 - EMPLOYEE BENEFITS

	31 December 2018	31 December 2017
Provision for employment termination benefits	38,235	31,693
Provision for unused vacation	10,443	9,286
<b>Total</b>	<b>48,678</b>	<b>40,979</b>

#### Employment termination benefits

The amount payable consists of one month's salary limited to a maximum of TL5,434.42 in full for each year of service as of 31 December 2018 (31 December 2017: TL4,732.48 in full).

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

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

The principal assumption is that the maximum liability for each year of service will increase in line with inflation. Thus, the discount rate applied represents the real rate free of expected effects of inflation. The termination indemnity ceiling is revised semi-annually and the ceiling amounting to TL 6,017.60 in full (1 January 2018: TL 5,001.76 in full), which is effective from 1 January 2019, has been taken into consideration in calculation of retirement benefit provision in the consulate.

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

	31 December 2018	31 December 2017
Net discount rate (%)	5.65	4.95
Turnover rate to estimate the probability of retirement (%)	96.76	97.28

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

	2018	2017
1 January	31,693	28,088
Interest expense	2,868	2,542
Charge for the period	12,392	6,400
Remeasurement differences	(1,659)	(136)
Payments	(7,059)	(5,201)
<b>31 December</b>	<b>38,235</b>	<b>31,693</b>

# OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

## NOTES TO CONSOLIDATED YEARS ENDED FINANCIAL STATEMENTS AT 31 DECEMBER 2018 AND 2017

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

### NOTE 16 - EMPLOYEE BENEFITS (Continued)

#### Provision for unused vacation

The movements of provision for unused vacation are as follows:

	2018	2017
1 January	9,286	8,491
Charge for the period, net (Note 21)	1,157	795
<b>31 December</b>	<b>10,443</b>	<b>9,286</b>

### NOTE 17 - PREPAID EXPENSES, DEFERRED REVENUE, OTHER ASSETS AND LIABILITIES

#### a) Prepaid expenses:

	31 December 2018	31 December 2017
Advances given	-	185,594
Prepaid expenses	7,470	4,559
	<b>7,470</b>	<b>190,153</b>

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

#### b) Other current assets

	31 December 2018	31 December 2017
Value added tax receivables	57,546	39,832
Other	3,377	800
	<b>60,923</b>	<b>40,632</b>

#### c) Deferred revenues:

Deferred revenues - short term	31 December 2018	31 December 2017
Advances received	191,607	11,647
Deferred maintenance revenues	5,184	9,437
	<b>196,791</b>	<b>21,084</b>

Deferred revenues - long term	31 December 2018	31 December 2017
Advance received	469,884	430,580
Deferred maintenance revenues	35,511	-
	<b>505,395</b>	<b>430,580</b>

# OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

## NOTES TO CONSOLIDATED YEARS ENDED FINANCIAL STATEMENTS AT 31 DECEMBER 2018 AND 2017

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

### NOTE 17 - PREPAID EXPENSES, DEFERRED REVENUE, OTHER ASSETS AND LIABILITIES (Continued)

#### d) Employee benefits obligation

	31 December 2018	31 December 2017
Payables to employees	14,520	11,764
Social security payables	8,014	6,197
Taxes and funds payable	7,810	6,333
	<b>30,344</b>	<b>24,294</b>

#### e) Other current liabilities:

	31 December 2018	31 December 2017
Taxes and funds payable	13,688	1,709
Deferred special consumption tax	911	444
Payables to shareholders	105	-
Other	705	589
	<b>15,409</b>	<b>2,742</b>

### NOTE 18 - EQUITY

#### Share capital

As of 31 December 2018 and 2017, the principal shareholders and their respective shareholding percentages are as follows:

	31 December 2018		31 December 2017	
	TL	(%)	TL	(%)
Koç Holding A.Ş.	10,723	44.68	10,723	44.68
Ünver Holding A.Ş.	5,955	24.81	5,955	24.81
Other	7,322	30.51	7,322	30.51
<b>Total</b>	<b>24,000</b>	<b>100.00</b>	<b>24,000</b>	<b>100.00</b>
Inflation adjustment on equity items	52,743		52,743	
<b>Total</b>	<b>76,743</b>		<b>76,743</b>	

Retained earnings, as per the statutory financial statements, other than legal reserve, are available for distribution, subject to the legal reserve requirement referred to below.

# OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

## NOTES TO CONSOLIDATED YEARS ENDED FINANCIAL STATEMENTS AT 31 DECEMBER 2018 AND 2017

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

### NOTE 18 - EQUITY (Continued)

The legal reserve consists of first and second legal reserves, allocated in accordance with the Turkish Commercial Code. The first legal reserve is allocated out of last period's statutory profits at the rate of 5% per annum until the total reserve reaches 20% of the paid-in share capital (not indexed to the inflation). The second legal reserve is allocated after the first legal reserve and dividends, at the rate of 10% per annum of all cash dividend distributions. The first and the second legal reserves are not available for distribution unless they exceed 50% of the share capital, but may be used to absorb losses in the event that the general reserve is exhausted.

Publicly traded companies enter into force as of 1 February 2014, dividend distributions according to the Communiqué No: II-19.1.

Companies distribute dividends in accordance with their dividend payment policies settled and dividend payment decision taken in general assembly and also in conformity with relevant legislations. The communiqué does not constitute a minimum dividend rate. Companies distribute dividend in accordance with the method defined in their dividend policy or articles of incorporation. In addition, dividend can be distributed by fixed or variable installments and advance dividend can be paid in accordance with profit on interim financial statements of the Group.

In accordance with the Turkish Commercial Code (TCC), unless the required reserves and the dividend for shareholders as determined in the article of association or in the dividend distribution policy of the company are set aside, no decision may be made to set aside other reserves, to transfer profits to the subsequent year or to distribute dividends to the holders of usufruct right certificates, to the members of the board of directors or to the employees; and no dividend can be distributed to these persons unless the determined dividend for shareholders is paid in cash.

	31 December 2018	31 December 2017
Paid-in share capital	24,000	24,000
Inflation adjustment on equity items	52,743	52,743
Restricted reserves	66,678	59,798
Accumulated other comprehensive income and expense that is not subject to reclassification to income or loss	(3,586)	(4,880)
Accumulated other comprehensive income and expense that is subject to reclassification to income or loss	12,997	2,396
Retained earnings		
- Extraordinary reserves	61,468	39,124
- Inflation adjustments on legal reserves	10,950	10,950
Net income for the year	164,336	99,423
<b>Total</b>	<b>389,586</b>	<b>283,554</b>

# OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

## NOTES TO CONSOLIDATED YEARS ENDED FINANCIAL STATEMENTS AT 31 DECEMBER 2018 AND 2017

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

### NOTE 18 - EQUITY (Continued)

As of December 31, 2018 and 2017, the restated amounts and the equity restatement differences of the aforementioned nominal values are as follows :

#### 31 December 2018

	Historical value	Inflation adjustments on equity items	Restated value
Share capital	24,000	52,743	76,743
Legal reserves	66,678	10,950	77,628
<b>Total</b>	<b>90,678</b>	<b>63,693</b>	<b>154,371</b>

#### 31 December 2017

	Historical value	Inflation adjustments on equity items	Restated value
Share capital	24,000	52,743	76,743
Legal reserves	59,798	10,950	70,748
	<b>83,798</b>	<b>63,693</b>	<b>147,491</b>

Historical value of legal and extraordinary reserves in the statutory financial statements are as follows:

	31 December 2018	31 December 2017
Legal reserves	66,678	59,895
Extraordinary reserves	48,350	87,093
<b>Total</b>	<b>115,028</b>	<b>146,988</b>

Dividends distributed during the year based on previous year's net income per statutory financial statements	70,000	60,000
--	--------	--------

Dividend paid per share (piaster)	0,292	0,250
-----------------------------------	-------	-------

The Company's share capital is fully paid, and consists of 24,000,000,000 shares with piaster 0.1 par value each .

# OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

## NOTES TO CONSOLIDATED YEARS ENDED FINANCIAL STATEMENTS AT 31 DECEMBER 2018 AND 2017

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

### NOTE 19 - REVENUE AND COST OF SALES

#### Net sales

	1 January - 31 December 2018	1 January - 31 December 2017
Domestic sales	595,707	1,241,020
Export sales	1,101,378	552,285
<b>Gross Sales</b>	<b>1,697,085</b>	<b>1,793,305</b>
Less: sales discounts and returns	(18,424)	(8,033)
<b>Net sales</b>	<b>1,678,661</b>	<b>1,785,272</b>

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

	1 January - 31 December 2018	1 January - 31 December 2017
Commercial vehicle	857,541	701,723
Armored vehicle	591,671	799,089
Accrued earnings related to construction contracts	23,896	79,877
Other sales (*)	205,553	204,583
	<b>1,678,661</b>	<b>1,785,272</b>

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

#### Cost of sales

	1 January - 31 December 2018	1 January - 31 December 2017
Cost of finished goods sold	(982,150)	(1,208,644)
Cost of merchandise goods sold	(103,554)	(105,002)
	<b>(1,085,704)</b>	<b>(1,313,646)</b>



# OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

## NOTES TO CONSOLIDATED YEARS ENDED FINANCIAL STATEMENTS AT 31 DECEMBER 2018 AND 2017

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

### NOTE 20 - RESEARCH AND DEVELOPMENT EXPENSES, MARKETING AND GENERAL ADMINISTRATIVE EXPENSES

	1 January - 31 December 2018	1 January - 31 December 2017
Sales and marketing expenses	(285,053)	(234,662)
General administrative expenses	(91,886)	(69,524)
Research and development expenses	(50,481)	(43,644)
	<b>(427,420)</b>	<b>(347,830)</b>

### NOTE 21 - EXPENSES BY NATURE

	1 January - 31 December 2018	1 January - 31 December 2017
Cost of raw material and consumption goods	854,610	931,349
Personnel expenses	234,802	204,816
Cost of merchandises sold	112,697	119,446
Sales, incentives and premiums	64,741	33,978
Administrative expenses	63,255	50,227
Depreciation and amortization expense	58,448	60,026
Warranty provision expense (Note 15)	46,276	55,462
Operational expenses	33,630	31,713
Transportation, distribution and storage expenses	27,436	20,268
Advertising, promotion and promotion costs	21,511	19,435
Change in finished and semi-finished goods	(94,443)	92,758
Other expenses	90,161	41,998
<b>Total</b>	<b>1,513,124</b>	<b>1,661,476</b>

The breakdown of personnel expenses for the years 2018 and 2017 is as follows:

	1 January - 31 December 2018	1 January - 31 December 2017
<b>Based on the account it's recorded:</b>		
Cost of sales and inventories on hand	114,268	94,162
Sales and marketing expenses	65,582	52,589
Capitalized development expenditures	50,513	35,817
General administrative expenses	32,511	28,121
Costs related to uncompleted contracts	19,757	29,829
Research and development expenses	2,684	115
	<b>285,315</b>	<b>240,633</b>

# OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

## NOTES TO CONSOLIDATED YEARS ENDED FINANCIAL STATEMENTS AT 31 DECEMBER 2018 AND 2017

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

### NOTE 21 - EXPENSES BY NATURE (Continued)

	1 January - 31 December 2018	1 January - 31 December 2017
<b>By nature:</b>		
Wages and salaries	220,260	186,625
Social security premiums	26,879	24,427
Other social benefits	19,481	17,807
Provision for employment termination benefits	15,603	9,082
Provision for vacation pay liability	1,157	795
Other	1,935	1,897
	<b>285,315</b>	<b>240,633</b>

### NOTE 22 - OTHER OPERATING INCOME AND EXPENSES

	1 January - 31 December 2018	1 January - 31 December 2017
<b>Other operating income</b>		
Foreign exchange gains on operating activities	235,978	375,918
Gain on forward transactions	53,126	37,756
Revenue from charge of due date receivables	30,255	20,780
Incentives income	1,940	2,156
Other	23,402	12,054
<b>Total</b>	<b>344,701</b>	<b>448,664</b>

	1 January - 31 December 2018	1 January - 31 December 2017
<b>Other operating expenses</b>		
Foreign exchange loss on operating activities	(241,979)	(297,324)
Loss on forward transactions	(27,027)	(44,338)
Provision for doubtful receivables(Note 8)	(9,485)	(4,852)
Other	(335)	(232)
<b>Total</b>	<b>(278,826)</b>	<b>(346,746)</b>

### NOTE 23 - FINANCIAL INCOME

	1 January - 31 December 2018	1 January - 31 December 2017
Interest income from time deposits	28,649	13,498
Foreign exchange gains on deposits	13,265	-
Foreign exchange gains on bank borrowings	3,977	1,050
<b>Total</b>	<b>45,891</b>	<b>14,548</b>

# OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

## NOTES TO CONSOLIDATED YEARS ENDED FINANCIAL STATEMENTS AT 31 DECEMBER 2018 AND 2017

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

### NOTE 24 - FINANCIAL EXPENSES

	1 January - 31 December 2018	1 January - 31 December 2017
Interest expense on bank borrowings	(120,609)	(95,782)
Foreign exchange losses on bank borrowings	(30,547)	(38,861)
Foreign exchange losses on deposits	(14,426)	(15,873)
Other	(304)	(290)
<b>Total</b>	<b>(165,886)</b>	<b>(150,806)</b>

### NOTE 25 - TAX ASSETS AND LIABILITIES

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

In Turkey, the corporation tax rate is 22% (2017 - 20%). Corporate tax returns are required to be filed by the twenty-fifth day of the fourth month following the balance sheet date and taxes must be paid in one installment by the end of the fourth month. The tax legislation provides for a temporary tax of 22% to be calculated and paid based on earnings generated for each quarter. The amounts thus calculated and paid are offset against the final corporate tax liability for the year.

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. Research and development incentives shall be calculated over the total expenditures made in 2018 and 2017.

As a result of its research and development expenditures made in 2018 amounting to TL328,546 (2017: TL105,370). The Group has utilized research and development incentives at 100% deduction without any withholding tax. The Company has an R&D center certificate

# OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

## NOTES TO CONSOLIDATED YEARS ENDED FINANCIAL STATEMENTS AT 31 DECEMBER 2018 AND 2017

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

### NOTE 25 - TAX ASSETS AND LIABILITIES (Continued)

As of 31 December 2018 and 2017, income tax payables are presented net of prepaid taxes in the balance sheet as follows:

	31 December 2018	31 December 2017
Income tax payable	632	66
Prepaid taxes (-)	(65)	-
<b>Total</b>	<b>567</b>	<b>66</b>

The breakdown of total tax expense for the years ended 31 December 2018 and 2017 are as follows:

	31 December 2018	31 December 2017
Current tax charge	(632)	(66)
<b>Deferred tax income / expense reflected in profit or loss</b>		
Charged to profit for the period	43,823	8,783
Charged to other comprehensive income	(365)	(30)
<b>Total</b>	<b>42,826</b>	<b>8,687</b>

The reconciliation of profit before tax to total tax expense is as follows:

	1 January - 31 December 2018	1 January - 31 December 2017
<b>Profit before tax</b>	<b>121,145</b>	<b>90,706</b>
Income tax charge at effective tax rate 22%	(26,652)	(18,141)
Disallowable expenses	(7,527)	-
Discounts and exceptions	73,621	33,934
Tax effect on gain on investments accounted for using the equity method	2,680	-
Impact of foreign companies subject to different tax rates	2,702	-
Other	(1,998)	(7,106)
<b>Total</b>	<b>42,826</b>	<b>8,687</b>

In accordance with the regulation numbered 7061, published in Official Gazette on 5 December 2017, "Law on the Amendment of Some Tax Acts and Some Other Laws", corporate tax rate for the years 2018, 2019 and 2020 has increased from 20% to 22%. Therefore, deferred tax assets and liabilities as of 31 December 2017 are calculated with 22% tax rate for the temporary differences which will be realized in 2018, 2019 and 2020, and with 20% tax for those which will be realized after 2021 and onwards.

# OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

## NOTES TO CONSOLIDATED YEARS ENDED FINANCIAL STATEMENTS AT 31 DECEMBER 2018 AND 2017

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

### NOTE 25 - TAX ASSETS AND LIABILITIES (Continued)

As of 31 December 2018 and 2017, the breakdown of deferred tax bases and deferred tax liability computed using the current effective tax rates are as follows:

	Cumulative temporary differences		Deferred tax assets / (liability)	
	31			
	31 December 2018	December 2017	31 December 2018	31 December 2017
Incentives from research and development activities (*)	334,643	123,033	73,621	27,067
Property, plant and equipment	(19,389)	(7,723)	(396)	1,937
Intangible assets	(71,733)	(53,814)	(14,347)	(10,763)
Deferred financial expenses	(1,410)	(453)	(310)	(100)
Inventories	6,519	996	1,424	213
Warranty provision	43,778	53,065	9,403	11,260
Provision for employment termination benefits	38,235	31,693	7,647	6,339
Deferred financial income	880	1,044	194	230
Other provisions	54,726	23,052	11,198	4,851
Deferred maintenance income	41,876	9,437	6,511	2,076
Due from customers on contract works	-	9,732	-	2,141
Other	(24,019)	25,566	(4,881)	1,355
<b>Deferred tax assets, net</b>			<b>90,064</b>	<b>46,606</b>

- (\*) The Company's incentive income from investments with incentive certificate are subject to corporate income tax exemption tax at reduced rates being effective starting from the period that investment is partially or entirely operated and till the period that investment reaches the contribution amount. In this context, as of December 31, 2018, the tax advantage of TL334,643 (31 December 2017: TL123,033), which the Company will use in the foreseeable future, has been recognized in the financial statements as deferred tax asset. The deferred tax asset on tax advantage carried from 2015 and before was not been calculated since the case regarding the use of tax benefit of TL164,801 for aforementioned years is still going on.

The movement of deferred tax asset for the years ended 31 December 2018 and 2017 are as follows:

	2018	2017
1 January	46,606	37,853
Deferred tax income		
Charged to profit for the period	43,823	8,783
Charged to other comprehensive income	(365)	(30)
<b>31 December</b>	<b>90,064</b>	<b>46,606</b>

# OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

## NOTES TO CONSOLIDATED YEARS ENDED FINANCIAL STATEMENTS AT 31 DECEMBER 2018 AND 2017

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

### NOTE 26 - EARNINGS PER SHARE

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

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

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

	31 December 2018	31 December 2017
Net income attributable to shareholders (TL)	164,336	99,423
Weighted average number of issued shares	24,000,000,000	24,000,000,000
Earnings per share (Piastre)	0.685	0.414

### NOTE 27 - RELATED PARTY DISCLOSURES

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

i) Due from and due to related party balances as of 31 December 2018 and 2017:

Due from related parties	31 December 2018	31 December 2017
Ram Dış Ticaret A.Ş. (1) (*)	271,758	28,958
Al Jasoor Heavy Vehicle Industry LLC (3) (**)	126,822	-
Ford Otosan A.Ş. (1), (2)	464	698
<b>Total</b>	<b>399,044</b>	<b>29,656</b>

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

(\*\*) This amount consists of the trade receivables due to the sales to Al Jasoor Heavy Vehicles Industry LLC,

Due to related parties	31 December 2018	31 December 2017
Koç Holding A.Ş. (2)	7,083	5,353
Ram Dış Ticaret A.Ş. (1)	6,916	2,996
Zer Merkezi Hizmetler A.Ş. (1)	5,836	2,974
Setur Servis Turistik A.Ş. (1)	1,245	618
Koç Sistem Bilgi ve İletişim Hiz. A.Ş. (1)	931	213
Otokoç Otomotiv Tic. ve San. A.Ş. (1)	788	596
Türk Traktör ve Ziraat Makineleri A.Ş.(1)	707	-
Other (1)	1,840	1,344
<b>Total</b>	<b>25,346</b>	<b>14,094</b>

(1) Related parties of the parent company

(2) Shareholder

(3) Joint venture

# OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

## NOTES TO CONSOLIDATED YEARS ENDED FINANCIAL STATEMENTS AT 31 DECEMBER 2018 AND 2017

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

### NOTE 27 - RELATED PARTY DISCLOSURES (Continued)

Advances received from related parties	31 December 2018	31 December 2017
Al Jasoor Heavy Vehicle Industry LLC (3) (*)	652,617	432,553
	<b>652,617</b>	<b>432,553</b>

(\*) These are the advances received due to sales to Al Jasoor Heavy Vehicles Industry LLC, which is a Joint Venture of the Group.

ii) Significant sales to related parties and significant purchases from related parties :

Sales of products and services	1 January - 31 December 2018	1 January - 31 December 2017
Ram Dış Ticaret A.Ş. (1) (*)	407,999	228,849
Al Jasoor Heavy Vehicle Industry LLC (3)	172,279	-
Other (1)	239	134
	<b>580,517</b>	<b>228,983</b>

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

Fixed asset purchases	1 January - 31 December 2018	1 January - 31 December 2017
Koç Sistem Bilgi ve İletişim Hiz. A.Ş. (1)	2,288	2,802
Otokoç Otomotiv Tic. ve San. A.Ş. (1)	167	281
Zer Merkezi Hizmetler A.Ş. (1)	117	486
Other (1)	20	62
	<b>2,592</b>	<b>3,631</b>

Inventory purchases	1 January - 31 December 2018	1 January - 31 December 2017
Zer Merkezi Hizmetler A.Ş. (1)	37,505	27,773
Ram Dış Ticaret A.Ş. (1)	7,904	4,345
Opet Petrolcülük A.Ş. (1)	3,761	3,192
Akpa Dayanıklı Tük. Paz. A.Ş. (1)	2,359	2,328
Opet Fuchs Madeni Yağ A.Ş. (1)	2,321	2,246
Other (1)	834	3,896
	<b>54,684</b>	<b>43,780</b>

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

# OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

## NOTES TO CONSOLIDATED YEARS ENDED FINANCIAL STATEMENTS AT 31 DECEMBER 2018 AND 2017

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

### NOTE 27 - RELATED PARTY DISCLOSURES (Continued)

Service purchases	1 January - 31 December 2018	1 January - 31 December 2017
Ram Dış Ticaret A.Ş. (1)	39,615	17,164
Setur Servis Turistik A.Ş. (1)	10,036	7,985
Koç Holding A.Ş. (2) (*)	9,509	8,170
Koç Sistem Bilgi ve İlt. Hiz. A.Ş. (1)	7,159	3,059
Otokoç Otomotiv Tic. ve San. A.Ş. (1)	5,846	3,938
Ram Sigorta Aracılık Hiz. A.Ş. (1) (**)	5,027	3,605
Eltek Elektrik Enerji İth. İhr. Top. Tic. A.Ş. (1)	1,132	4,163
Other(1)	3,239	1,902
<b>Total</b>	<b>81,563</b>	<b>49,986</b>

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

(\*\*) It includes paid and accrued premium as of 31 December 2018 in accordance with insurance policies signed between insurance companies via Ram Sigorta Aracılık Hizmetleri A.Ş. which is an insurance agency.

Banks deposits	31 December 2018	31 December 2017
Yapı ve Kredi Bankası A.Ş. (1)		
- Time deposits	15,631	1,821
- Deposit deposits	471	3
	<b>16,102</b>	<b>1,824</b>

Checks and notes in collection	31 December 2018	31 December 2017
Yapı ve Kredi Bankası A.Ş. (1)	2,662	4,119
	<b>2,662</b>	<b>4,119</b>

(1) Related parties of the parent company

(2) Shareholder



# OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

## NOTES TO CONSOLIDATED YEARS ENDED FINANCIAL STATEMENTS AT 31 DECEMBER 2018 AND 2017

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

### NOT 27 - RELATED PARTY DISCLOSURES (Continued)

For the years ended 31 December 2018 and 2017, financial income and expense with related parties:

	1 January - 31 December 2018	1 January - 31 December 2017
<b>Trade receivables and payables foreign exchange gains</b>		
Ram Dış Ticaret A.Ş. (1)	42,596	25,321
Yapı ve Kredi Bankası A.Ş. (1)	9,193	8,650
Other(1)	338	82
	<b>52,127</b>	<b>34,053</b>

	1 January - 31 December 2018	1 January - 31 December 2017
<b>Trade receivables and payables foreign exchange expenses</b>		
Ram Dış Ticaret A.Ş. (1)	16,345	9,549
Zer Merkezi Hizmetler A.Ş. (1)	1,003	365
Yapı Kredi Faktöring A.Ş. (1)	-	12,678
Other (1)	7,909	5,516
	<b>25,257</b>	<b>28,108</b>

For the years ended 31 December 2018 and 2017, financial income and expense with related parties:

	1 January - 31 December 2018	1 January - 31 December 2017
<b>Interest income</b>		
Yapı ve Kredi Bankası A.Ş. (1)	431	183
<b>Total</b>	<b>431</b>	<b>183</b>

	1 January - 31 December 2018	1 January - 31 December 2017
<b>Interest expense</b>		
Yapı ve Kredi Bankası A.Ş. (1)	214	742
<b>Total</b>	<b>214</b>	<b>742</b>

(1) Related parties of the parent company

### Benefits provided to senior executives

For the year ended 31 December 2018, the total amount of benefits provided to senior management is TL 17,518 thousand (31 December 2017: TL 14,762 thousand). The senior executives consist of board members, general manager and deputy general managers.

# OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

## NOTES TO CONSOLIDATED YEARS ENDED FINANCIAL STATEMENTS AT 31 DECEMBER 2018 AND 2017

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

### NOTE 28 - NATURE AND LEVEL OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

The Group 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 Group'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 Group.

#### *Credit risk*

Ownership of financial assets involves the risk that counterparties may be unable to meet the terms of their agreements. These risks are monitored by limiting the aggregate risk from any individual counterparty (excluding related parties) and by receiving guarantees from customers when considered necessary. Credit risk of the Group mainly arises from trade receivables. The Group manages this risk that may arise from its dealers or from other customers by restricting the credit limits determined for the dealers according to the amount of guarantees received, by receiving advance payments or by receiving the pledge of ownership of the vehicles sold. Credit limits are regularly monitored by the Group and the customers' credit quality are regularly evaluated by considering the customer's financial position, past experiences and other factors. All foreign sales are made after receiving confirmed letters of credit. Military vehicle sales are made to domestic or foreign governmental institutions or to companies acting as agents to these institutions; accordingly, the Group does not anticipate any collection risk related to military vehicle sales. Trade receivables are evaluated by management based on their past experiences and current economic condition, and are presented in financial statements net of provision for doubtful receivables (Note8).

31 December 2018	Receivables			Derivative instrumen t
	Trade receivables	Other	Bank deposits	
<b>Maximum credit risk exposure as of reporting date (A+B+C+D+E) (1)</b>	<b>878,387</b>	<b>1,011</b>	<b>172,262</b>	<b>297</b>
- Maximum risk secured by guarantee (2)	<b>(186,069)</b>	-	-	-
A. Net book value of financial assets neither overdue nor impaired	<b>877,043</b>	<b>1,011</b>	<b>172,262</b>	-
B. Net book value of financial assets of which conditions are negotiated, otherwise considered as impaired or overdue	-	-	-	-
C. Net book value of assets overdue but not impaired	<b>255</b>	-	-	-
D. Net book value of impaired assets	<b>1,089</b>	-	-	-
- Overdue (gross book value)	<b>44,601</b>	-	-	-
- Impairment (-) (Note 8)	<b>(43,512)</b>	-	-	-
- Net value under guarantee	<b>1,089</b>	-	-	-
- Not overdue (gross book value)	-	-	-	-
- Impairment (-)	-	-	-	-
- Net value under guarantee	-	-	-	-
E. Off- balance sheet items having credit risk	-	-	-	-

# OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

## NOTES TO CONSOLIDATED YEARS ENDED FINANCIAL STATEMENTS AT 31 DECEMBER 2018 AND 2017

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

### NOTE 28 - NATURE AND LEVEL OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (Continued)

31 December 2017	Receivables		Bank deposits	Derrivate instrument
	Trade receivables	Other		
Maximum credit risk exposure as of reporting date (A+B+C+D+E) (1)	455,564	349	227,367	1,325
- Maximum risk secured by guarantee (2)	(260,836)	-	-	-
A. Net book value of financial assets neither overdue nor impaired	454,998	349	227,367	-
B. Net book value of financial assets of which conditions are negotiated, otherwise considered as impaired or overdue	-	-	-	-
C. Net book value of assets overdue but not impaired	236	-	-	-
D. Net book value of impaired assets	330	-	-	-
- Overdue (gross book value)	34,315	-	-	-
- Impairment (-) (Note 8)	(33,985)	-	-	-
- Net value under guarantee	330	-	-	-
- Not overdue (gross book value)	-	-	-	-
- Impairment (-)	-	-	-	-
- Net value under guarantee	-	-	-	-
E. Off- balance sheet items having credit risk	-	-	-	-

(1) Guarantees received and factors increasing the loan reliability are not considered when determining this amount.

(2) Guarantees consist of guarantee notes, guarantee checks, mortgages and car pledges received from customers.

#### Liquidity risk

Prudent liquidity risk management includes maintaining sufficient cash and marketable securities, the availability of funding from an adequate amount of committed credit facilities and the ability to close out market positions.

The ability to fund existing and prospective debt requirements are managed by maintaining the availability of adequate committed funding lines from high quality lenders.

# OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

## NOTES TO CONSOLIDATED YEARS ENDED FINANCIAL STATEMENTS AT 31 DECEMBER 2018 AND 2017

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

### NOTE 28 - NATURE AND LEVEL OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (Continued)

As of 31 December 2018 and 2017, maturities of gross trade payables and financial liabilities are as follows:

#### 31 December 2018

<b>Maturities per agreements</b>	<b>Book value</b>	<b>Total cash outflow per agreements (=I+II+III+IV)</b>	<b>Less than 3 month (I)</b>	<b>Between 3-12 month (II)</b>	<b>Between 1-5 years (III)</b>	<b>Over 5 years (IV)</b>
<b>Non-derivative financial liabilities</b>						
Bank loans	707,547	845,890	238,036	85,598	522,256	-
Trade payables	269,459	270,889	270,483	406	-	-
<b>Expected maturities</b>	<b>Book value</b>	<b>Total expected cash outflow</b>	<b>Less than 3 month</b>	<b>Between 3-12 month</b>	<b>Between 1-5 year</b>	<b>Over 5 years</b>
<b>Non-derivative financial liabilities</b>						
Other payables	43,292	14,693	14,693	-	-	-
Other short-term liabilities	15,409	15,409	15,409	-	-	-
<b>Expected (or maturities per agreement)</b>	<b>Book value</b>	<b>Total expected cash outflow</b>	<b>Less than 3 month</b>	<b>Between 3-12 month</b>	<b>Between 1-5 year</b>	<b>Over 5 years</b>
<b>Derivative financial liabilities (net)</b>	297	297	297	-	-	-
Derivative cash inflows	470,301	470,301	470,301	-	-	-
Derivative cash outflows	(470,004)	(470,004)	(470,004)	-	-	-

# OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

## NOTES TO CONSOLIDATED YEARS ENDED FINANCIAL STATEMENTS AT 31 DECEMBER 2018 AND 2017

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

### NOTE 28 - NATURE AND LEVEL OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (Continued)

31 December 2017

Maturities per agreements	Book value	Total cash outflow per agreements (=I+II+III+IV)	Less than 3 month (I)	Between 3-12 month (II)	Between 1-5 years (III)	Over 5 years (IV)
<b>Non-derivative financial liabilities</b>						
Bank loans	703,658	757,936	457,848	107,090	192,998	-
Trade payables	62,117	62,579	62,223	356	-	-
<b>Expected maturities</b>						
Expected maturities	Book value	Total expected cash outflow	Less than 3 month	Between 3-12 month	Between 1-5 year	Over 5 years
<b>Non-derivative financial liabilities</b>						
Other payables	42,549	42,549	42,549	-	-	-
Other short-term liabilities	2,742	2,742	2,742	-	-	-
<b>Expected (or maturities per agreement)</b>						
Expected (or maturities per agreement)	Book value	Total expected cash outflow	Less than 3 month	Between 3-12 month	Between 1-5 year	Over 5 years
<b>Derivative financial liabilities (net)</b>						
Derivative cash inflows	1,325	1,325	1,325	-	-	-
Derivative cash outflows	260,648	260,648	260,648	-	-	-
	(259,323)	(259,323)	(259,323)	-	-	-

#### Market risk

##### a) Foreign currency risk and related sensitivity analysis

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

# OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

## NOTES TO CONSOLIDATED YEARS ENDED FINANCIAL STATEMENTS AT 31 DECEMBER 2018 AND 2017

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

### NOTE 28 - 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;

31 December 2018	TL equivalent (functional currency)	USD	EUR	GBP
1. Trade receivables	805,011	76,525	66,210	497
2a. Monetary financial assets (including cash, bank accounts)	67,110	3,371	8,191	-
2b. Non-monetary financial assets	-	-	-	-
3. Other	58	11	-	-
4. <b>Current assets (1+2+3)</b>	<b>872,179</b>	<b>79,907</b>	<b>74,401</b>	<b>497</b>
5. Trade receivables	7,933	-	1,316	-
6a. Monetary financial assets	-	-	-	-
6b. Non-monetary financial assets	-	-	-	-
7. Other	-	-	-	-
8. <b>Non-current assets (5+6+7)</b>	<b>7,933</b>	<b>-</b>	<b>1,316</b>	<b>-</b>
9. <b>Total assets( (4+8)</b>	<b>880,111</b>	<b>79,907</b>	<b>75,717</b>	<b>497</b>
10. Trade payables	(165,872)	(19,894)	(10,117)	(34)
11. Financial liabilities	-	-	-	-
12a. Monetary other liabilities	(8,871)	(929)	(630)	(28)
12b. Non-monetary other liabilities	-	-	-	-
-13. <b>Current liabilities (10+11+12)</b>	<b>(174,743)</b>	<b>(20,823)</b>	<b>(10,747)</b>	<b>(62)</b>
14. Trade payables	-	-	-	-
15. Financial liabilities	(60,268)	-	(9,998)	-
16a. Monetary other liabilities	(522,327)	(99,285)	-	-
16b. Non-monetary other liabilities	-	-	-	-
17. <b>Non-current liabilities (14+15+16)</b>	<b>(582,595)</b>	<b>(99,285)</b>	<b>(9,998)</b>	<b>-</b>
18. <b>Total liabilities (13+17)</b>	<b>(757,338)</b>	<b>(120,108)</b>	<b>(20,745)</b>	<b>(62)</b>
<b>Net balance sheet position (9+18)</b>	<b>122,773</b>	<b>(40,201)</b>	<b>54,972</b>	<b>435</b>
19. Net asset/(liability) position of off-balance sheet derivative instruments( (19a-19b)	(106,438)	41,069	(53,500)	-
19a. Hedged total assets amount	342,322	65,069	-	-
19b. Hedged total liabilities amount	(448,760)	(24,000)	(53,500)	-
<b>20. Net foreign currency asset/(liability) position (9+18+19)</b>	<b>16,334</b>	<b>868</b>	<b>1,472</b>	<b>435</b>
<b>21. Net foreign currency asset/(liability) position of monetary items (=1+2a+5+6a-10-11-12a-14-15-16a)</b>	<b>122,714</b>	<b>(40,212)</b>	<b>54,972</b>	<b>435</b>
22. Total fair value of financial instruments used for foreign currency hedging	(299)	(1,722)	1,223	200
23. Export	1,092,424	90,564	83,810	529
24. Import	639,474	58,468	59,705	1,048

# OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

## NOTES TO CONSOLIDATED YEARS ENDED FINANCIAL STATEMENTS AT 31 DECEMBER 2018 AND 2017

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

### NOTE 28 - NATURE AND LEVEL OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (Continued)

31 December 2017	TL equivalent (functional currency)	USD	EUR	GBP
1. Trade receivables	589,040	90,131	55,035	111
2a. Monetary financial assets (including cash, bank accounts)	401,125	105,321	856	-
2b. Non-monetary financial assets	-	-	-	-
3. Other	8	2	-	-
4. <b>Current assets (1+2+3)</b>	<b>990,173</b>	<b>195,454</b>	<b>55,891</b>	<b>111</b>
5. Trade receivables	3,847	-	852	-
6a. Monetary financial assets	-	-	-	-
6b. Non-monetary financial assets	-	-	-	-
7. Other	103	7	17	-
8. <b>Non-current assets (5+6+7)</b>	<b>3,950</b>	<b>7</b>	<b>869</b>	<b>-</b>
9. <b>Total assets (4+8)</b>	<b>994,123</b>	<b>195,461</b>	<b>56,760</b>	<b>111</b>
10. Trade payables	(8,423)	(126)	(1,759)	(1)
11. Financial liabilities	-	-	-	-
12a. Monetary other liabilities	(310,684)	(82,122)	(174)	(28)
12b. Non-monetary other liabilities	(9,487)	-	(2,101)	-
13. <b>Current liabilities (10+11+12)</b>	<b>(328,594)</b>	<b>(82,248)</b>	<b>(4,034)</b>	<b>(29)</b>
14. Trade payables	-	-	-	-
15. Financial liabilities	-	-	-	-
16a. Monetary other liabilities	(404,513)	(107,244)	-	-
16b. Non-monetary other liabilities	-	-	-	-
17. <b>Non-current liabilities (14+15+16)</b>	<b>(404,513)</b>	<b>(107,244)</b>	<b>-</b>	<b>-</b>
18. <b>Total liabilities (13+17)</b>	<b>(733,107)</b>	<b>(189,492)</b>	<b>(4,034)</b>	<b>(29)</b>
19. <b>Net balance sheet position (9+18)</b>				
19. Net asset/(liability) position of off-balance sheet derivative instruments( (19a-19b)	<b>261,016</b>	<b>5,969</b>	<b>52,726</b>	<b>82</b>
19a. Hedged total assets amount	(259,323)	(6,500)	(52,000)	-
19b. Hedged total liabilities amount	-	-	-	-
20. <b>Net foreign currency asset/(liability) position (9+18+19)</b>	(259,323)	(6,500)	(52,000)	-
21. <b>Net foreign currency asset/(liability) position of monetary items (=1+2a+5+6a-10-11-12a-14-15-16a)</b>	<b>1,693</b>	<b>(531)</b>	<b>726</b>	<b>82</b>
22. Total fair value of financial instruments used for foreign currency hedging	<b>270,392</b>	<b>5,960</b>	<b>54,810</b>	<b>82</b>
23. Export	(1,325)	(72)	(1,253)	-
24. Import	546,540	59,450	78,239	146
1. Trade receivables	464,611	59,078	59,924	1,327

# OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

## NOTES TO CONSOLIDATED YEARS ENDED FINANCIAL STATEMENTS AT 31 DECEMBER 2018 AND 2017

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

### NOTE 28 - NATURE AND LEVEL OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (Continued)

The following table demonstrates the sensitivity to a possible change of 10% in the USD, Euro and GBP exchange rates, with all other variables held constant, on the Group's income before tax as of 31 December 2018 and 2017:

	Profit before tax Appreciation of foreign currency	Profit before tax Depreciation of foreign currency
<b>31 December 2018</b>		
<i>In case 10% appreciation of USD against TL:</i>		
1- USD net asset/liability	457	(457)
2- Amount hedged for USD risk (-)		
<b>3- USD net effect (1+2)</b>	<b>457</b>	<b>(457)</b>
<i>In case 10% appreciation of EUR against TL:</i>		
4- EUR net asset/liability	887	(887)
5- Amount hedged for EUR risk (-)		
<b>6- EUR net effect (4+5)</b>	<b>887</b>	<b>(887)</b>
<i>In case 10% appreciation of GBP against TL</i>		
7- GBP net asset/liability	289	(289)
8- Amount hedged for GBP risk (-)		
<b>9- GBP net effect (7+8)</b>	<b>289</b>	<b>(289)</b>
<b>Total (3+6+9)</b>	<b>1,633</b>	<b>(1,633)</b>

	Profit before tax Appreciation of foreign currency	Profit before tax Depreciation of foreign currency
<b>31 December 2017</b>		
<i>In case 10% appreciation of USD against TL</i>		
1- USD net asset/liability	(200)	200
2- Amount hedged for USD risk (-)	-	-
<b>3- USD net effect (1+2)</b>	<b>(200)</b>	<b>200</b>
<i>In case 10% appreciation of EUR against TL</i>		
4- EUR net asset/liability	328	(328)
5- Amount hedged for EUR risk (-)	-	-
<b>6- EUR net effect (4+5)</b>	<b>328</b>	<b>(328)</b>
<i>In case 10% appreciation of GBP against TL</i>		
7- GBP net asset/liability	42	(42)
8- Amount hedged for GBP risk (-)	-	-
<b>9- GBP net effect (7+8)</b>	<b>42</b>	<b>(42)</b>
<b>Total (3+6+9)</b>	<b>170</b>	<b>(170)</b>



# OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

## NOTES TO CONSOLIDATED YEARS ENDED FINANCIAL STATEMENTS AT 31 DECEMBER 2018 AND 2017

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

### NOTE 28 - NATURE AND LEVEL OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (Continued)

#### b) Interest position table and related sensitivity analysis

##### *Interest rate risk*

As the Group has no significant interest-bearing assets, the Group's income and operating cash flows are not substantially subject to changes in market interest rates.

The Group's interest rate risk arises from short-term borrowings and time deposits. The Group has obtained fixed rate bearing borrowings and time deposits. However the borrowings and time deposits that the Group is going to obtain in future will be affected from future interest rates.

As of 31 December 2018 and 2017, the financial liabilities of the Group are consisted of fixed rate bank borrowings.

##### *Capital risk management*

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

Consistent with other companies in the industry, the Company monitors capital on the basis of the gearing factor. This factor is calculated as net financial liability divided by total capital. Net financial liability is calculated as total borrowings (including borrowings as shown in balance sheet) less cash and cash equivalents.

	31 December 2018	31 December 2017
Total financial liability	707,547	703,658
Less: Cash and cash equivalents (Note 4)	(173,017)	(228,958)
Net financial liability	534,530	474,700
Total equity	389,586	283,554
<b>Financial debt/shareholders' equity factor</b>	<b>137%</b>	<b>%167</b>

# OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

## NOTES TO CONSOLIDATED YEARS ENDED FINANCIAL STATEMENTS AT 31 DECEMBER 2018 AND 2017

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

### NOTE 29 - FINANCIAL INSTRUMENTS

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

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

The following table presents the Group's assets that are measured at fair value at 31 December 2018 and 2017:

#### 31 December 2018

Assets	Level 1	Level 2	Level 3	Total
Derivative financial instruments	-	297	-	297
<b>Total</b>	<b>-</b>	<b>297</b>	<b>-</b>	<b>297</b>

#### 31 December 2017

Assets	Level 1	Level 2	Level 3	Total
Derivative financial instruments	-	1,325	-	1,325
<b>Total</b>	<b>-</b>	<b>1,325</b>	<b>-</b>	<b>1,325</b>

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

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

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

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

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

# OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

## NOTES TO CONSOLIDATED YEARS ENDED FINANCIAL STATEMENTS AT 31 DECEMBER 2018 AND 2017

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

---

### NOTE 30 - SUBSEQUENT EVENTS

None.

.....