

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

**CONVENIENCE TRANSLATION INTO ENGLISH OF
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD 1 JANUARY - 31 MARCH 2020**

(ORIGINALLY ISSUED IN TURKISH)

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY - 31 MARCH 2020

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OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

CONSOLIDATED BALANCE SHEETS AS OF 31 MARCH 2020 AND 31 DECEMBER 2019

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

	Notes	(None-Audited) 31 March 2020	(Audited) 31 December 2019
Assets			
Current assets			
Cash and cash equivalents	4	520,661	222,722
Trade receivables	9	936,755	896,618
<i>Due from related parties</i>	22	255,485	219,900
<i>Due from third parties</i>	9	681,270	676,718
Other receivables		435	470
Inventories	10	979,716	768,185
Prepaid expenses	14	15,466	8,646
Other current assets	14	41,296	46,003
Total current assets		2,494,329	1,942,644
Non-current assets			
Trade receivables	9	53,338	51,001
Other receivables		1,595	874
Investments accounted for using the equity method	5	77,509	56,162
Financial investment	7	147	147
Property, plant and equipment	11	132,316	129,072
Right of use assets	11	25,096	23,281
Intangible assets	12	394,058	372,539
Deferred income tax asset	20	107,348	101,997
Total non-current assets		791,407	735,073
Total assets		3,285,736	2,677,717

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 MARCH 2020 AND 31 DECEMBER 2019

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

	Notes	(None-Audited) 31 March 2020	(Audited) 31 December 2019
Liabilities			
Current liabilities			
Short-term borrowings	6	459,326	246,400
<i>Bank loans</i>	6	451,741	236,856
<i>Short-term lease liabilities</i>		7,585	9,544
Short-term portion of long-term borrowings	6	1,600	7,509
<i>Bank loans</i>	6	1,600	7,509
Trade payable	9	344,158	256,191
<i>Due to related parties</i>	22	9,988	29,731
<i>Due to third parties</i>	9	334,170	226,460
Derivative financial liabilities	8	1,718	1,100
Employee benefit obligations	14	20,332	38,276
Other payables		48,565	46,434
Obligations arising from customer contracts	14	326,029	288,137
Government grants		284	314
Short-term provisions	13	164,966	147,505
<i>Provisions for employee benefits</i>	13	14,977	12,520
<i>Other provisions</i>		149,989	134,985
Other current liabilities	14	7,643	5,881
Total current liabilities		1,374,621	1,037,747
Non-current liabilities			
Long-term borrowings	6	1,024,156	547,940
<i>Bank loans</i>	6	1,004,300	533,012
<i>Long-term lease liabilities</i>	6	19,856	14,928
Government grants		1,462	1,392
Long-term provisions	13	51,768	48,460
<i>Provisions for employee benefits</i>	13	51,768	48,460
Obligations arising from customer contracts	14	374,557	404,532
Total non-current liabilities		1,451,943	1,002,324
Total liabilities		2,826,564	2,040,071
Equity			
Paid-in share capital		24,000	24,000
Inflation adjustment on share capital		52,743	52,743
Restricted reserves		93,650	73,770
Accumulated other comprehensive income and expense that will not be reclassified to statement of profit or loss		(11,687)	(9,741)
<i>Defined benefit plans remeasurement losses</i>		(11,687)	(9,741)
Accumulated other comprehensive income and expense that may be reclassified to statement of profit or loss		(11,215)	(12,380)
<i>Currency translation differences</i>		(11,215)	(12,380)
Retained earnings		289,374	157,662
Net profit for the period		22,307	351,592
Total equity		459,172	637,646
Total liabilities and equity		3,285,736	2,677,717

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 MARCH 2020 AND 2019

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

	Notes	(None-Audited) 1 January - 31 March 2020	(None-Audited) 1 January - 31 March 2019
Revenue	15	458,789	419,070
Cost of sales (-)	15	(308,304)	(315,459)
GROSS PROFIT		150,485	103,611
Marketing expenses (-)	16	(77,311)	(71,901)
General administrative expenses (-)	16	(33,094)	(25,222)
Research and development expenses (-)	16	(17,342)	(13,965)
Other operating income	17	115,169	84,106
Other operating expenses (-)	17	(112,906)	(55,445)
OPERATING PROFIT		25,001	21,184
Income from investing activities		20	111
Share of profit/loss of investments accounted for using the equity method, net	5	10,206	(1,037)
OPERATING INCOME BEFORE FINANCIAL EXPENSES		35,227	20,258
Financial income	18	13,031	13,130
Financial expense (-)	19	(30,752)	(51,675)
PROFIT BEFORE TAX		17,506	(18,287)
Tax income/(expense) from continued operations			
- Current tax expense (-)	20	-	-
- Deferred tax income	20	4,801	7,335
PROFIT FOR THE PERIOD		22,307	(10,952)
Items that will not be reclassified to statement of profit or loss			
Remeasurement (losses)/gains		(2,496)	(5,414)
Deferred tax income/(expense)		550	1,191
Items that may be reclassified to statement of profit or loss			
Currency translation differences of investments accounted for using the equity method		11,141	693
Currency translation differences		(9,976)	(4,953)
Other comprehensive (losses)/income		(781)	(8,483)
TOTAL COMPREHENSIVE INCOME		21,526	(19,435)
Earnings per share (Kr)	21	0,093	(0,046)

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 MARCH 2020 AND 2019

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

		Paid in share capital	Inflation adjustment on share capital	Restricted reserves	Accumulated other comprehensive income and expense that will not be reclassified to statement of profit or loss	Accumulated other comprehensive income and expense that may be reclassified to statement of profit or loss	Retained earnings	Net income for the period	Total equity
					Remeasurement losses on defined benefit plans	Currency translation differences			
31 March 2019	Opening balances	24,000	52,743	66,678	(3,586)	12,997	72,418	164,336	389,586
	Transfers	-	-	-	-	-	164,336	(164,336)	-
	Dividends paid	-	-	-	-	-	(72,000)	-	(72,000)
	Total comprehensive income	-	-	-	(4,223)	(4,260)	-	(10,952)	(19,435)
	Closing balances	24,000	52,743	66,678	(7,809)	8,737	164,754	(10,952)	298,151
31 March 2020	Opening balances	24,000	52,743	73,770	(9,741)	(12,380)	157,662	351,592	637,646
	Transfers	-	-	19,880	-	-	331,712	(351,592)	-
	Dividends paid	-	-	-	-	-	(200,000)	-	(200,000)
	Total comprehensive income	-	-	-	(1,946)	1,165	-	22,307	21,526
	Closing balances	24,000	52,743	93,650	(11,687)	(11,215)	289,374	22,307	459,172

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 2020 AND 2019

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

	Notes	(None-Audited) 1 January - 31 March 2020	(None-Audited) 1 January - 31 March 2019
CASH FLOWS FROM OPERATING ACTIVITIES		(107,055)	(103,183)
Net profit for the period		22,307	(10,952)
Adjustments to reconcile net profit for the period to cash flows from operating activities		78,033	68,675
Depreciation and amortization	11	23,064	17,421
Adjustments in relation to impairment:		4,365	2,346
- Provision for doubtful receivables	9	3,415	1,871
- Provision for inventories	10	950	475
Adjustments in relation to provision:		37,781	18,944
- Provision for employee benefits	13	6,597	830
- Warranty provision expenses r	13	29,043	18,114
- Adjustments for other provisions		2,141	-
Adjustments in relation to interest income and expenses:		13,035	34,281
- Interest income on time deposits	18	(3,499)	(632)
- Interest expense on borrowings	19	16,534	34,913
Adjustments in relation to unrealised foreign exchange gains and losses		11,752	4,940
Adjustments in relation to fair value gains and losses		(1,738)	(9,490)
- Fair value losses/(gains) on financial derivative instruments		(1,738)	(9,490)
Adjustments for undistributed profits of investments accounted for using equity method		(10,206)	344
- Adjustments for undistributed profits of joint ventures		(10,206)	344
Adjustments in relation to gains or losses on sales of property, plant and equipment		(20)	(111)
- Gain on sale of property, plant and equipments		(20)	(111)
Changes in net working capital		(190,242)	(146,764)
Change in trade receivables		(46,713)	(187,743)
Change in inventories		(212,481)	(139,944)
Change in trade payables		87,967	97,574
Other changes		(19,015)	83,349
- Changes in other operating assets		(2,112)	(9,496)
- Changes in other operating liabilities		(16,903)	92,845
Cash flows from operations		(89,902)	(89,041)
Payments in relation to employee benefits	13	(3,328)	(2,721)
Payments in relation to other provisions	13	(16,180)	(14,815)
Other cash collections/(payments)		2,355	3,394
CASH FLOWS FROM INVESTING ACTIVITIES		(48,977)	(29,757)
Proceeds from sale of property, plant and equipment and intangible assets		349	132
-Proceeds from sale of property, plant and equipment		349	132
Cash outflows due to purchase of property, plant and equipment and intangible assets		(49,326)	(29,889)
-Cash outflows due to purchase of property, plant and equipment	11	(11,527)	(2,016)
-Cash outflows due to purchase of intangible assets	12	(37,799)	(27,873)
CASH FLOWS FROM FINANCING ACTIVITIES		452,806	118,206
Cash inflow from to borrowings		912,329	817,764
- Proceeds from bank borrowings		912,329	817,764
Cash outflow due to repayment of borrowings		(248,376)	(599,104)
- Repayments of borrowings		(245,705)	(583,397)
- Cash outflows on debt payments from leasing agreements		(2,671)	(15,707)
Dividends paid		(200,000)	(72,000)
Interest paid		(14,646)	(29,086)
Interest received		3,499	632
NET DECREASE IN CASH AND CASH EQUIVALENTS BEFORE THE EFFECT OF CURRENCY TRANSLATION DIFFERENCES		296,774	(14,734)
Effect of currency translation difference on cash and cash equivalents		1,165	(4,260)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		297,939	(18,994)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	4	222,722	173,017
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	4	520,661	154,023

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

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO CONSOLIDATED PERIOD ENDED FINANCIAL STATEMENT AT 31 MARCH 2020

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

NOTE 1 - GROUP’S ORGANIZATION AND NATURE OF OPERATIONS

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

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

Subsidiaries	Country	Main activity	Field of activity
Otokar Europe SAS	France	Sales and marketing	Automotive
Otokar Land Systems Limited	United Arab Emirates	Sales and marketing	Automotive
Otokar Europe Filiala Bucuresti SRL	Romania	Sales and marketing	Automotive
Otokar Central Asia Limited	Kazakhstan	Sales and marketing	Automotive

Joint ventures	Country	Main activity	Field of activity
Al Jasoor Heavy Vehicle Industry LLC	United Arab Emirates	Sales and marketing	Automotive

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

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

	31 March 2020		31 December 2019	
	Period end	Average	Period end	Average
Total personnel number	1,994	1,967	1,957	1,994

The consolidated financial statements for the period ended 31 March 2020 were authorized for issue and signed by the Board of Directors of Otokar on 30 April 2020. The accompanying consolidated financial statements may be amended by the General Assembly.

Otokar is registered to the Capital Market Board (“CMB”) and its shares are listed on the Borsa Istanbul A.Ş. (“BIST”) since 1995. As of 31 March 2020, 27.85% of the shares are quoted on the BIST.

As of 31 March 2020, the principal shareholders and their respective shareholding percentages are as follows:

	(%)
Koç Holding A.Ş.	44.68
Ünver Holding A.Ş.	24.81
Other	30.51
	100.00

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO CONSOLIDATED PERIOD ENDED FINANCIAL STATEMENT AT 31 MARCH 2020

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

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

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/IFRS”) and interpretations as adopted in line with international standards by the Public Oversight Accounting and Auditing Standards Authority of Turkey (“POA”) in line with the communiqué numbered II-14.1 “Communiqué on the Principles of Financial Reporting In Capital Markets” (the “Communiqué”) announced by the Capital Markets Board of Turkey (“CMB”) on 13 June 2013 which is published on Official Gazette numbered 28676.

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

Consolidated financial statements have been presented in accordance with the formats specified in the "Announcement about TMS Taxonomy" published by the UPS on 15 April 2019 and the "Guidelines for Using Financial Statement Examples".

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.

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 TRY, which is the Company’s functional and presentation currency.

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO CONSOLIDATED PERIOD ENDED FINANCIAL STATEMENT AT 31 MARCH 2020

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

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

2.1 Basis of presentation of consolidated financial statements (Continued)

Functional and presentation currency (Continued)

In accordance with the CMB's resolution dated 17 March 2005 and numbered 11/367, the financial statements were restated in accordance with Turkish Accounting Standards (TAS) 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 March 2020 and 31 December 2019 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 TRY 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 period ended 31 March 2020 are consistent with those used in the preparation of financial statements for the period ended 31 December 2019.

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 PERIOD ENDED FINANCIAL STATEMENT AT 31 MARCH 2020

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

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

2.3 Changes in accounting policies (Continued)

2.3.1 New standards and amendments

a. New standards, amendments and interpretations to existing standards as of 31 March 2020:

- **Amendment to TFRS 9, ‘Financial instruments’;** effective from annual periods beginning on or after 1 January 2019. This amendment confirmed two points: (1) that reasonable compensation for prepayments can be both negative or positive cash flows when considering whether a financial asset solely has cash flows that are principal and interest and (2) 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.
- **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 far-reaching change in accounting by lessees in particular. Under TAS 17, lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). 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.

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO CONSOLIDATED PERIOD ENDED FINANCIAL STATEMENT AT 31 MARCH 2020

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

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

2.3 Changes in accounting policies (Continued)

2.3.1 New standards and amendments (Continued)

a. New standards, amendments and interpretations to existing standards as of 31 March 2020 (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
- **Amendments to TFRS 9, TAS 39 and TFRS 7 - Interest rate benchmark reform;** effective from Annual periods beginning on or after 1 January 2020. These amendments provide certain reliefs in connection with interest rate benchmark reform. The reliefs relate to hedge accounting and have the effect that IBOR reform should not generally cause hedge accounting to terminate. However, any hedge ineffectiveness should continue to be recorded in the income statement. Given the pervasive nature of hedges involving IBOR-based contracts, the reliefs will affect companies in all industries.

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO CONSOLIDATED PERIOD ENDED FINANCIAL STATEMENT AT 31 MARCH 2020

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

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

2.3 Changes in accounting policies (Continued)

2.3.1 New standards and amendments (Continued)

b. Standards, amendments and interpretations that are issued but not effective as at 31 March 2020:

- **IFRS 17, ‘Insurance contracts’;** effective from annual periods beginning on or after 1 January 2022. This standard replaces IFRS 4, which currently permits a wide variety of practices in accounting for insurance contracts. IFRS 17 will fundamentally change the accounting by all entities that issue insurance contracts and investment contracts with discretionary participation features.
- Amendments to IAS 1, ‘Presentation of financial statements’ on classification of liabilities; effective from 1 January 2022. These narrow-scope amendments to IAS 1, ‘Presentation of financial statements’, clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Classification is unaffected by the expectations of the entity or events after the reporting date (for example, the receipt of a waiver or a breach of covenant). The amendment also clarifies what IAS 1 means when it refers to the ‘settlement’ of a liability.

2.4 Summary of significant accounting policies

Group accounting

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

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.

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

2.4 Summary of significant accounting policies (Continued)

Group accounting (Continued)

Disposal of a subsidiary

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

The table below sets out the subsidiaries of the Company and shows the total interest of the Company in these companies at 31 March 2020 and 31 December 2019:

Subsidiaries	2020		2019	
	Direct and indirect ownership (%)	Proportion of effective interest (%)	Direct and indirect ownership (%)	Proportion of effective interest (%)
Otokar Europe SAS	100.00	100.00	100.00	100.00
Otokar Land Systems Limited	100.00	100.00	100.00	100.00
Otokar Europe Filiala Bucuresti SRL	100.00	100.00	100.00	100.00
Otokar Central Asia Limited	100.00	100.00	100.00	100.00
Joint venture	Direct and indirect ownership (%)	Proportion of effective interest (%)	Direct and indirect ownership (%)	Proportion of effective interest (%)
Al Jasoor Heavy Vehicle Industry LLC	49.00	49.00	49.00	49.00

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 14). Thus, segment reporting is not performed.

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NOTE 4 - CASH AND CASH EQUIVALENTS

	31 March 2020	31 December 2019
Banks		
- Time deposits	486,994	144,016
- Demand deposits	33,631	78,649
Others	36	57
	520,661	222,722

As of 31 March 2020, TRY486,994 of the total amount of time deposits amounting to TRY93,593 thousand is denominated in foreign currency and the annual effective interest rate is 0.91% and has a maturity of 1 days. The annual effective interest rate of the remaining TRY393,401 thousand is 10.81% and has a maturity of 19 days.

(As of 31 December 2019, TRY62,745 of the total amount of time deposits amounting to TRY144,016 thousand is denominated in foreign currency and the annual effective interest rate is 0.95% and has a maturity of 6 days. The annual effective interest rate of the remaining TRY81,271 thousand is 10.48% and has a maturity of 6 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 March 2020, the Group has restricted bank deposit amounting to TRY0,2 thousand (31 December 2019: TRY0,2 thousand).

NOTE 5 - INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

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

Joint ventures	31 March 2020		31 December 2019	
	(%)	Amount	(%)	Amount
Al Jasoor	49	77,509	49	56,162
		77,509		56,162

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

The movement of the joint venture for the period ended 31 March 2020 and 31 December 2019 as follows:

	2020	2019
Opening balance	56,162	13,305
Shares of profit	10,206	39,774
Currency translation differences	11,141	3,083
Closing balance	77,509	56,162

The summary of the financial statements of Al Jasoor as of 31 March 2020 is as follows:

	31 March 2020	31 December 2019
Total assets	1,102,496	989,834
Total liabilities	(948,135)	(876,650)
Foreign currency translation differences	3,821	1,432
Net assets	158,182	114,616
Ownership of the Group	%49	%49
Net asset share of the Group	77,509	56,162

NOTE 6 - BORROWINGS

Short-term financial borrowings (*)

31 March 2020	Maturities	Annual effective interest rate (%)	TRY Amount
Bank borrowings			
RON borrowings	31 December 2020	5.22-5.43	245,074
TRY borrowings	19 March 2021	0.00-11.13	206,665
USD borrowings	20 April 2020	4.40	1
EUR borrowings	20 April 2020	1.00	1
			451,741
Borrowings from lease liabilities			
TRY lease liabilities	-	10.00	2,179
EUR lease liabilities	-	2.00	5,406
			7,585
Total short-term financial liabilities			459,326

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NOTE 6 - BORROWINGS (Continued)

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

31 March 2020	Maturities	Annual effective interest rate (%)	TRY Amount
EUR borrowings	-	2.35	51
TRY borrowings	-	9.75-12.00	1,549
			1,600

Long-term bank loans (*)

TRY borrowings	4 October 2021- 27 September 2022	9.75-12.00	860,000
EUR borrowings	20 September 2021	2.35	144,300
			1,004,300

Borrowings from lease liabilities

TRY borrowings	-	10.00	5,705
EUR borrowings	-	2.00	14,151
			19,856

Total long-term financial borrowings **1,024,156**

(*) Bearing fixed interest rate

Short-term financial borrowings (*)

31 December 2019	Maturities	Annual effective interest rate (%)	TRY Amount
Bank borrowings			
EUR borrowings	2 January 2020	1.04	139,676
RON borrowings	14 December 2020	5.22	97,180
			236,856

Borrowings from lease liabilities

EUR lease liabilities	-	6.00	6,802
TRY lease liabilities	-	25.00	2,742
			9,544

Total short-term financial liabilities **246,400**

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NOTES TO CONSOLIDATED PERIOD ENDED FINANCIAL STATEMENT AT 31 MARCH 2020

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NOTE 6 - BORROWINGS (Continued)

31 December 2019	Maturities	Annual effective interest rate (%)	TRY Amount
Principals and interest accruals on the short-term portion of long-term borrowings (*)			
TRY borrowings	-	14.15-15.01	6,697
EUR borrowings	-	2.35	812
			7,509
31 December 2019	Maturities	Annual effective interest rate (%)	TRY Amount
Long-term bank loans (*)			
TRY borrowings	1 October 2021 - 3 October 2022	14.15-15.01	400,000
EUR borrowings	20 Septemebr 2021	2.35	133,012
			533,012
Borrowings from lease liabilities			
EUR borrowings	-	6.00	10,639
TRY borrowings	-	25.00	4,289
			14,928
Total long-term financial borrowings			547,940

(*) Bearing fixed interest rate

As of 31 March 2020, the Group has not provided any guarantees for the borrowings (31 December 2019: None).

The movement of the borrowings for the years ended 31 March 2020 and 2019 are as follows:

	2020	2019
1 January	801,849	707,547
Borrowing received during the period	912,329	817,764
Effect of change due to TFRS 16	-	17,855
Cash outflows related to debt payments from leasing agreements	(2,671)	(2,495)
Changes in lease obligations under TFRS 16	5,637	(15,360)
Principal payments (-)	(245,704)	(583,397)
Change in interest accruals	1,890	5,826
Change in exchange rates	11,752	4,940
31 March	1,485,082	952,680

NOTE 7 - FINANCIAL INVESTMENT

Otokar Central Asia Limited company was established on 5 November 2019 in Astana International Financial Center (AIFC), a special-status region that accepts the principles of British Law in Kazakhstan, in order to increase overseas sales and follow up export activities.

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NOTES TO CONSOLIDATED PERIOD ENDED FINANCIAL STATEMENT AT 31 MARCH 2020

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NOTE 8 - DERIVATIVE FINANCIAL INSTRUMENTS

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

	Contract amount	Current period contract maturity	Fair value liabilities
31 March 2020:			
Forward transactions	761,710	2 April 2020- 16 April 2020	(1,718)
Short-term derivative financial instruments	761,710		(1,718)
Total derivative financial instruments	761,710		(1,718)
	Contract amount	Previous period contract maturity	Fair value liabilities
31 December 2019:			
Forward transactions	612,478	9 January 2020- 31 January 2020	(1,100)
Short-term derivative financial instruments	612,478		(1,100)
Total derivative financial instruments	612,478		(1,100)

NOTE 9 - TRADE RECEIVABLES AND PAYABLES

Trade receivables

	31 March 2020	31 December 2019
Trade receivables, net	621,859	591,833
Notes receivables, net	109,665	131,586
	731,524	723,419
Less: provision for doubtful receivables	(50,254)	(46,701)
Short-term trade receivables	681,270	676,718
Trade receivables from related parties (Note 22)	255,485	219,900
Short-term trade receivables	936,755	896,618
Long-term trade receivables, net	53,338	51,001
Long-term trade receivables	53,338	51,001

As of 31 March 2020, the average maturity of trade receivables is between 60-90 days (excluding notes receivables) (31 December 2019: 60-90 days).

As of 31 March 2020 and 31 December 2019, the fair values of trade receivables approximate to their carrying values due to short term maturity of those receivables.

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NOTES TO CONSOLIDATED PERIOD ENDED FINANCIAL STATEMENT AT 31 MARCH 2020

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NOTE 9 - TRADE RECEIVABLES AND PAYABLES (Continued)

Guarantees received for trade receivables

Receivables of the Group are mainly composed of minibus and bus sales to dealers and trailer and armored vehicle sales. As of 31 March 2020, the total trade receivable from dealers amounting to TRY133,331 thousand (31 December 2019: TRY92,084 thousand), after provision provided for doubtful receivables, has been secured by mortgages and guarantees at the amount of TRY133,331 thousand (31 December 2019: TRY92,268 thousand).

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

31 March 2020

1- 30 day past due	-
1- 3 month past due	-
3- 12 month past due	-
1- 5 year past due	289
Over 5 years past due	-
	289
Amount secured with guarantees	289

31 December 2019

1- 30 day past due	-
1- 3 month past due	-
3- 12 month past due	-
1- 5 year past due	270
Over 5 years past due	-
	270
Amount secured with guarantees	270

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

The movement of the provision for doubtful receivables for the years ended 31 March 2020 and 2019 are as follows:

	2020	2019
1 January	46,701	43,512
Collections	-	-
Currency translation differences	138	84
Exchange differences	3,415	1,787
31 March	50,254	45,383

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NOTE 9 - TRADE RECEIVABLES AND PAYABLES (Continued)

Trade payables

	31 March 2020	31 December 2019
Trade payables, net	333,633	225,948
Notes payables, net	537	512

Short-term other trade payables **334,170** **226,460**

Trade payables to related parties (Note 22)	9,988	29,731
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Short-term trade payables **344,158** **256,191**

As of 31 March 2020, average payment term for trade payables is 45-60 days (31 December 2019: 45-60 days).

As of 31 March 2020 and 31 December 2019, the fair values of trade payables approximate to their carrying values due to short-term maturity of those payables.

NOTE 10 - INVENTORIES

	31 March 2020	31 December 2019
Raw material	333,000	229,304
Semi-finished goods	87,416	72,267
Finished goods	291,004	246,131
Merchandise goods	121,541	117,692
Goods in transit	157,067	112,153
Impairment for inventories (*)	(10,312)	(9,362)
	979,716	768,185

(*) TRY306 thousand of impairment is related to finished goods (31 December 2019: TRY325 thousand) and TRY882 thousand is related to merchandises (31 December 2019: TRY818 thousand). TRY9,184 thousand of impairment (31 December 2019: TRY8,219 thousand) is related to raw materials. The impairment has been accounted for under cost of sales.

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NOTES TO CONSOLIDATED PERIOD ENDED FINANCIAL STATEMENT AT 31 MARCH 2020

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NOTE 11 - PROPERTY, PLANT AND EQUIPMENT

Movements of property, plant and equipment and related accumulated depreciation for the period ended 31 March 2020 and 31 March 2019 is as follows:

	1 January 2020	Additions	Currency translation differences	Disposal	Transfers	31 March 2020
Cost:						
Land	37,437	-	-	-	-	37,437
Land improvements	8,608	290	-	-	-	8,898
Buildings	59,620	-	-	-	-	59,620
Machinery and equipment	112,253	466	209	-	10,157	123,085
Motor vehicles	9,782	2,914	-	(135)	-	12,561
Furniture and fixtures	53,168	2,915	114	(14)	-	56,183
Leasehold improvements	1,117	-	-	-	-	1,117
Construction in areas	12,011	-	-	(143)	(10,157)	1,711
	293,996	6,585	323	(292)	-	300,612
Accumulated depreciation:						
Land improvements	(4,730)	(73)	-	-	-	(4,803)
Buildings	(47,350)	(307)	-	-	-	(47,657)
Machinery and equipment	(86,988)	(1,473)	(99)	-	-	(88,560)
Motor vehicles	(6,026)	(225)	-	15	-	(6,236)
Furniture and fixtures	(18,910)	(1,331)	(60)	201	-	(20,100)
Leasehold improvements	(920)	(20)	-	-	-	(940)
	(164,924)	(3,429)	(159)	216	-	(168,296)
Net book value	129,072					132,316

There is no mortgage on property, plant and equipment as of 31 March 2020 (31 December 2019: None).

	1 January 2019	Additions	Currency translation differences	Disposal	Transfers	31 March 2019
Cost:						
Land	37,457	-	-	(20)	-	37,437
Land improvements	8,583	-	-	-	-	8,583
Buildings	58,489	-	-	-	-	58,489
Machinery and equipment	106,570	680	56	-	-	107,306
Motor vehicles	9,345	135	-	-	-	9,480
Furniture and fixtures	38,143	1,016	37	(2)	-	39,194
Leasehold improvements	1,089	-	-	-	-	1,089
Construction in areas	4	92	-	-	-	96
	259,680	1,923	93	(22)	-	261,674
Accumulated depreciation:						
Land improvements	(4,432)	(76)	-	-	-	(4,508)
Buildings	(44,870)	(646)	-	-	-	(45,516)
Machinery and equipment	(81,205)	(1,355)	(35)	-	-	(82,595)
Motor vehicles	(5,483)	(172)	-	-	-	(5,655)
Furniture and fixtures	(15,245)	(777)	(19)	1	-	(16,040)
Leasehold improvements	(842)	(19)	-	-	-	(861)
	(152,077)	(3,045)	(54)	1	-	(155,175)
Net book value	107,603					106,499

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NOTE 11 - PROPERTY, PLANT AND EQUIPMENT (Continued)

The allocation of accumulated depreciation and amortisation for the period ended 31 March 2020 and 2019 is as follows:

	31 March 2020	31 March 2019
Research and development expenses	17,781	13,855
Cost of goods sold	1,625	1,385
Depreciation on inventories	257	584
Development projects in process	(916)	725
General administrative expenses	726	586
Selling and marketing expenses	236	232
Currency translation differences	159	54
Right of use of assets	3,355	-
	23,223	17,421

RIGHT OF USE ASSETS

Movements of right of use assets and related accumulated depreciation for the period ended 31 March 2020 and 31 March 2019 is as follows:

31 March 2020	Buildings	Motor vehicles	Furniture and fixture	Total
Cost	19,517	16,028	1,093	36,638
Accumulated depreciation	(3,894)	(7,343)	(305)	(11,542)
	15,623	8,685	788	25,096
31 March 2019	Buildings	Motor vehicles	Furniture and fixture	Total
Cost	9,497	7,801	486	17,784
Accumulated depreciation	(837)	(1,306)	(58)	(2,201)
	8,660	6,495	428	15,583

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NOTE 12 - INTANGIBLE ASSETS

Movements of intangible assets and related accumulated amortisation for the period ended 31 March 2020 and 31 March 2019 are as follows:

	1 January 2019	Additions	Currency translation differences	Disposals	Transfers	31 March 2019
Cost:						
Other intangible assets	21,821	969	-	-	-	22,790
Development costs	542,609	-	-	-	-	542,609
Developments projects in progress	123,643	36,830	-	-	-	160,473
	688,073	37,799	-	-	-	725,872
Accumulated amortization:						
Other intangible assets	(14,693)	(549)	-	-	-	(15,242)
Development costs	(300,841)	(15,731)	-	-	-	(316,572)
	(315,534)	(16,280)	-	-	-	(331,814)
Net book value	372,539					394,058
	1 January 2019	Additions	Currency translation differences	Disposals	Transfers	31 March 2019
Cost:						
Other intangible assets	18,249	908	-	-	-	19,157
Development costs	427,570	167	-	-	-	427,737
Developments projects in progress	92,439	26,798	-	-	-	119,237
	538,258	27,873	-	-	-	566,131
Accumulated amortization:						
Other intangible assets	(13,017)	(467)	-	-	-	(13,484)
Development costs	(244,585)	(13,855)	-	-	-	(258,440)
	(257,602)	(14,322)	-	-	-	(271,924)
Net book value	280,656					294,207

NOTE 13 - PROVISIONS, CONTINGENT ASSETS AND LIABILITIES

Short-term provisions

	31 March 2020	31 December 2019
Provision for warranty expenses	90,760	77,897
Provision for employee benefits	14,977	12,520
Other	59,229	57,088
	164,966	147,505

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

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.

As of 31 March 2020 and 2019, the tables which represent the position of guarantees, pledges and mortgages are as follows:

	2020	2019
1 January	77,897	43,778
Additional provision	29,043	18,114
Claim payments	(16,180)	(14,815)
31 March	90,760	47,077

Employee benefits

	31 March 2020	31 December 2019
Provision for employment termination benefits	51,768	48,460
Provision for unused vacation	14,977	12,520
	66,745	60,980

Employment termination benefits

The amount payable consists of one month's salary limited to a maximum of TRY6,730.15 in full for each year of service as of 31 March 2020 (31 December 2019: TRY6,379.86 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.

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

	31 March 2020	31 December 2019
Net discount rate (%)	4.67	4.67
Turnover rate to estimate the probability of retirement (%)	97.92	97.66

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

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 TRY6,730.15 in full (1 January 2019: TRY6,017.60 in full), which is effective from 1 January 2020, has been taken into consideration in calculation of retirement benefit provision in the consulate.

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

	2020	2019
1 January	48,460	38,235
Interest expense	1,096	865
Charge for the period	3,044	(35)
Remeasurement differences	2,496	5,414
Payments	(3,328)	(2,721)
31 March	51,768	41,758

Provision for unused vacation

The movements of provision for unused vacation are as follows:

	2020	2019
1 January	12,520	10,443
Charge for the period, net	2,457	2,654
31 March	14,977	13,097

Commitments and contingencies

As of 31 March 2020 and 31 December 2019, the tables which represent the position of guarantees, pledges and mortgages are as follows:

	31 March 2020	31 December 2019
a. Total amount of guarantees, pledges and mortgages given the name of legal entity	1,357,035	1,150,067
b. Total amount of guarantees, pledges and mortgages given in favour of the parties which are included in the scope of full consolidation	-	-
c. Total amount of guarantees, pledges and mortgages given to third parties for their liabilities in the purpose of conducting the ordinary operations	-	-
d. Total amount of other guarantees, pledges and mortgages	-	-
	1,357,035	1,150,067

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

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

	31 March 2020		31 December 2019	
	Original currency	TRY equivalent	Original currency	TRY equivalent
USD	150,309	979,413	151,597	900,516
EUR	27,338	197,244	22,452	149,317
TRY	112,205	112,205	91,779	91,779
RON	45,810	68,014	-	-
Polish Zloty	100	159	-	-
Chinese Yuan	-	-	10,000	8,455
		1,357,035		1,150,067

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

	31 March 2020	31 December 2019
Guarantee letters given		
Under secretariat of Ministry of Defense	98,410	103,573
Other(*)	1,258,625	1,046,494
	1,357,035	1,150,067

(*) Other guarantee; consists of guarantees given to third parties for transactions such as public sales, tax office and customs procedures.

Guarantee letters

a) Guarantees given as of 31 March 2020 and 31 December 2019 are as follows:

	31 March 2020	31 December 2019
Bank letters of guarantee	1,357,035	1,150,067
	1,357,035	1,150,067

b) Guarantees received as of 31 March 2020 and 31 December 2019 are as follows:

	31 March 2020	31 December 2019
Bank letters of guarantee	297,929	245,28
Guarantee notes	1,281	9,974
Mortgages received	20	4,020
	299,230	259,202

Contingent assets

The legal case related to tax deduction for the research and development activities in 2011-2012-2013-2014 and 2015 was concluded in favor of the Group and the same cases is still in progress at appeal phase. The appeal process ended in favor of the Group for 2011-2012-2013. 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. The appeal process is still in progress for 2014-2015.

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO CONSOLIDATED PERIOD ENDED FINANCIAL STATEMENT AT 31 MARCH 2020

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

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

a) Prepaid expenses:

	31 March 2020	31 December 2019
Prepaid expenses	15,466	8,646
	15,466	8,646

b) Other current assets:

	31 March 2020	31 December 2019
Value added tax receivables	39,371	45,040
Other	1,925	963
	41,296	46,003

c) Obligations arising from customer contracts:

Obligations arising from customer contracts – short-term	31 March 2020	31 December 2019
Advances received	301,117	266,602
Deferred maintenance revenues	24,912	21,535
	326,029	288,137

Obligations arising from customer contracts – long-term	31 March 2020	31 December 2019
Advance received	239,525	273,347
Deferred maintenance revenues	135,032	131,185
	374,557	404,532

d) Employee benefits obligation:

	31 March 2020	31 December 2019
Social security payables	9,734	10,034
Payables to employees	7,819	18,543
Taxes and funds payable	2,779	9,699
	20,332	38,276

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

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

e) Other current liabilities:

	31 March 2020	31 December 2019
Payables to shareholders	5,950	318
Deferred special consumption tax	791	1,064
Taxes and funds payable	-	3,700
Other	902	799
	7,643	5,881

NOTE 15 - REVENUE AND COST OF SALES

Net sales

	1 January - 31 March 2020	1 January - 31 March 2019
Domestic sales	167,759	115,926
Export sales	295,030	307,635
Gross sales	462,789	423,561
Less: sales discounts and returns	(4,000)	(4,491)
Net sales	458,789	419,070

Sales of the Group for the years ended 31 March 2020 and 2019 in terms of the products are as follows:

	1 January - 31 March 2020	1 January - 31 March 2019
Commercial vehicle	224,937	333,752
Armored vehicle	163,041	28,768
Other sales (*)	70,811	56,550
	458,789	419,070

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

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO CONSOLIDATED PERIOD ENDED FINANCIAL STATEMENT AT 31 MARCH 2020

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

NOTE 15 - REVENUE AND COST OF SALES (Continued)

Cost of sales

	1 January - 31 March 2020	1 January - 31 March 2019
Cost of finished goods sold	(288,017)	(286,955)
Cost of merchandise goods sold	(20,287)	(28,504)
	(308,304)	(315,459)

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

	1 January - 31 March 2020	1 January - 31 March 2019
Sales and marketing expenses	(77,311)	(71,901)
General administrative expenses	(33,094)	(25,222)
Research and development expenses	(17,342)	(13,965)
	(127,747)	(111,088)

NOTE 17 - OTHER OPERATING INCOME AND EXPENSES

	1 January - 31 March 2020	1 January - 31 March 2019
Other operating income		
Foreign exchange gains on operating activities	95,285	48,459
Gain on forward transactions	9,059	15,855
Revenue from charge of due date receivables	2,814	9,607
Incentives income	79	369
Other	7,932	9,816
	115,169	84,106
Other operating expenses		
Foreign exchange loss on operating activities	(96,738)	(47,293)
Loss on forward transactions	(7,322)	(6,365)
Provision for doubtful receivables	(3,415)	(1,787)
Expected credit loss for trade receivables	(1,816)	-
Other	(3,615)	-
	(112,906)	(55,445)

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NOTES TO CONSOLIDATED PERIOD ENDED FINANCIAL STATEMENT AT 31 MARCH 2020

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NOTE 18 - FINANCIAL INCOME

	1 January - 31 March 2020	1 January - 31 March 2019
Foreign exchange gains on bank borrowings	8,874	7,605
Foreign exchange gains on deposits	3,499	632
Interest income from time deposits	658	4,893
	13,031	13,130

NOTE 19 - FINANCIAL EXPENSES

	1 January - 31 March 2020	1 January - 31 March 2019
Interest expense on bank borrowings	(16,534)	(34,913)
Foreign exchange losses on bank borrowings	(9,869)	(9,833)
Foreign exchange losses on deposits	(989)	(6,457)
Other	(3,360)	(472)
	(30,752)	(51,675)

NOTE 20 - TAX ASSETS AND LIABILITIES

In Turkey, the corporation tax rate is 22%. 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% (2019 - 22%) to be calculated and paid based on earnings generated for each quarter. The amounts thus calculated and paid are offset against the final corporate tax liability for the year.

As of 31 March 2019 and 31 December 2019, income tax payables are presented net of prepaid taxes in the balance sheet as follows:

	31 March 2020	31 December 2019
Income tax payable	-	4,960
Prepaid taxes (-)	-	(4,960)
Current period tax liability/(asset)	-	-

The breakdown of total tax expense for the periods ended 31 March 2020 and 2019 are as follows:

	1 January - 31 March 2020	1 January - 31 March 2019
Current period tax charge	-	-
Deferred tax income/expense reflected in profit or loss		
Charged to profit for the period	4,801	7,335
Charged to other comprehensive income	550	1,191
	5,351	8,526

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO CONSOLIDATED PERIOD ENDED FINANCIAL STATEMENT AT 31 MARCH 2020

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

NOTE 20 - TAX ASSETS AND LIABILITIES (Continued)

As of 31 March 2020 and 31 December 2019, the breakdown of deferred tax bases and deferred tax liability computed using the current effective tax rates are as follows:

	Cumulative temporary differences		Deferred tax assets / (liability)	
	31 March 2020	31 December 2019	31 March 2020	31 December 2019
Incentives from research and development activities (*)	299,379	314,365	65,863	69,160
Property, plant and equipment	(27,769)	(27,051)	(2,072)	(1,929)
Intangible assets	(99,105)	(103,649)	(19,821)	(20,730)
Deferred financial expenses	(1,828)	(1,323)	(402)	(291)
Inventories	10,334	10,027	2,275	2,195
Warranty provision	90,760	77,897	18,799	16,226
Provision for employment termination benefits	51,768	48,460	10,354	9,692
Deferred financial income	(970)	(2,134)	(213)	(470)
Other provisions	62,945	49,968	12,928	10,283
Deferred maintenance income	54,013	145,908	25,304	24,435
Other	(71,707)	(32,061)	(5,667)	(6,574)
Deferred tax assets, net			107,348	101,997

(*) 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 31 March 2020, the tax advantage of TRY299,379 (31 December 2019: TRY314,365), which the Company will use in the foreseeable future, has been recognized in the consolidated financial statements as deferred tax asset. The deferred tax asset on tax advantage carried from 2015 and before has not been calculated since the case regarding the use of tax benefit of TRY164,801 thousand for aforementioned years is still in progress.

The movement of deferred tax asset for the years ended 31 March 2020 and 2019 are as follows:

	1 January - 31 March 2020	1 January - 31 March 2019
1 January	101,997	90,064
Deferred tax income/expense reflected in profit or loss:		
-Charged to profit for the period	4,801	7,334
-Charged to other comprehensive income	550	1,191
31 March	107,348	98,589

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO CONSOLIDATED PERIOD ENDED FINANCIAL STATEMENT AT 31 MARCH 2020

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NOTE 21 - EARNINGS PER SHARE

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

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

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

	31 March 2020	31 March 2019
Net income attributable to shareholders (TRY)	22,307	(10,952)
Weighted average number of issued shares	24,000,000,000	24,000,000,000
Earnings per share (Piastre)	0.093	(0,046)

NOTE 22 - RELATED PARTY DISCLOSURES

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

i) Due from and due to related party balances as of 31 March 2020 and 31 December 2019:

Due from related parties	31 March 2020	31 December 2019
Al Jasoor Heavy Vehicle Industry LLC (3) (**)	136,748	81,303
Ram Dış Ticaret A.Ş. (1) (*)	118,520	138,537
Other (1)	217	60
	255,485	219,900

(*) 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 March 2020	31 December 2019
Zer Merkezi Hizmetler A.Ş. (1)	1,981	4,914
Ram Sigorta Aracılık Hz. A.Ş.(1)	1,979	-
Ram Dış Ticaret A.Ş. (1)	1,439	4,400
Opet Fuchs Madeni Yağ A.Ş. (1)	957	479
Koç Holding A.Ş. (2)	947	11,787
Otokoç Otomotiv Tic. ve San. A.Ş. (1)	810	830
Ford Otosan A.Ş. (2)	687	-
Setur Servis Turistik A.Ş. (1)	381	1,573
Other (1)	807	5,748
	9,988	29,731

(1) Related parties of the parent company

(2) Shareholder

(3) Joint venture

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NOTES TO CONSOLIDATED PERIOD ENDED FINANCIAL STATEMENT AT 31 MARCH 2020

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NOTE 22 - RELATED PARTY DISCLOSURES (Continued)

Advances received from related parties	31 March 2020	31 December 2019
Al Jasoor Heavy Vehicle Industry LLC (3) (*)	528,795	527,169
	528,795	527,169

(*) 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 March 2020	1 January - 31 March 2019
Al Jasoor Heavy Vehicle Industry LLC (3)	172,435	-
Ram Dış Ticaret A.Ş. (1) (*)	9,175	24,579
Other (1)	20	161
	181,630	24,740

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

Fixed asset purchases	1 January - 31 March 2020	1 January - 31 March 2019
Koç Sistem Bilgi ve İletişim Hiz. A.Ş. (1)	912	1,480
Other (1)	97	-
	1,009	1,480

Inventory purchases	1 January - 31 March 2020	1 January - 31 March 2019
Zer Merkezi Hizmetler ve Ticaret A.Ş. (1)	8,424	10,044
Ram Dış Ticaret A.Ş. (1)	1,924	480
Opet Fuchs Madeni Yağ A.Ş. (1)	1,173	735
Opet Petrolcülük A.Ş.(1)	781	770
Ford Otosan A.Ş. (2)	643	-
Akpa Dayanıklı Tük.Paz. A.Ş. (1)	639	742
Türk Traktör ve Ziraat Makineleri A.Ş. (1)	-	1,081
Other (1)	47	2
	13,631	13,854

(1) Related parties of the parent company

(2) Shareholder

(3) Joint venture

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NOTES TO CONSOLIDATED PERIOD ENDED FINANCIAL STATEMENT AT 31 MARCH 2020

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

NOTE 22 - RELATED PARTY DISCLOSURES (Continued)

Service purchases	1 January - 31 March 2020	1 January - 31 March 2019
Ram Sigorta Aracılık Hz. A.Ş.(1)(**)	5,314	4,708
Ram Dış Ticaret A.Ş.(1)	2,819	11,172
Eltek Elektrik Enerji İth. İhr. Top. Tic. A.Ş. (1)	2,188	-
Koç Sistem Bilgi ve İletişim Hiz. A.Ş. (1)	2,099	598
Setur Servis Turistik A.Ş.(1)	2,064	2,320
Otokoç Otomotiv Tic. ve San. A.Ş.(1)	1,909	1,002
Koç Holding A.Ş. (2) (*)	905	895
Other (1)	656	427
	17,954	21,122

(*) 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 March 2020 and 31 December 2019 in accordance with insurance policies signed between insurance companies via Ram Sigorta Aracılık Hizmetleri A.Ş. which is an insurance agency.

Banks deposits	31 March 2020	31 December 2019
Yapı ve Kredi Bankası A.Ş. (1)		
- Time deposits	109,639	4,510
- Demand deposits	6	2
	109,645	4,512

Checks and notes in collection	31 March 2020	31 December 2019
Yapı ve Kredi Bankası A.Ş. (1)	755	1,921
	755	1,921

(1) Related parties of the parent company

(2) Shareholder

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NOTE 22 - RELATED PARTY DISCLOSURES (Continued)

For the years ended 31 March 2020 and 2019, financial income and expense with related parties are as follows:

	1 January - 31 March 2020	1 January - 31 March 2019
Trade receivables and payables foreign exchange gains		
Ram Dış Ticaret A.Ş. (1)	54,210	4,297
Zer Merkezi Hizmetler ve Ticaret A.Ş. (1)	6	42
Other (1)	13	-
	54,229	4,339

	1 January - 31 March 2020	1 January - 31 March 2019
Trade receivables and payables foreign exchange expenses		
Ram Dış Ticaret A.Ş. (1)	41,216	6,085
Zer Merkezi Hizmetler ve Ticaret A.Ş. (1)	97	137
Other (1)	28	77
	41,341	6,299

For the periods ended 31 March 2020 and 2019, financial income and expense with related parties:

	1 January - 31 March 2020	1 January - 31 March 2019
Interest income		
Yapı ve Kredi Bankası A.Ş. (1)	532	117
	532	117

	1 January - 31 March 2020	1 January - 31 March 2019
Interest expense		
Yapı ve Kredi Bankası A.Ş. (1)	927	4,020
	927	4,020

(1) Related parties of the parent company

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NOTE 22 - RELATED PARTY DISCLOSURES (Continued)

For the periods ended 31 March 2020 and 2019, financial income and expense with related parties:

	1 January - 31 March 2020	1 January - 31 March 2019
Exchange difference incomes		
Yapı ve Kredi Bankası A.Ş. (1)	3,586	2,489
	3,586	2,489
Exchange difference expenses		
Yapı ve Kredi Bankası A.Ş. (1)	306	1,895
	306	1,895

(1) Related parties of the parent company

Benefits provided to senior executives

For the period ended 31 March 2020, the total amount of benefits provided to senior management is TRY2,285 thousand (31 March 2019: TRY2,290 thousand). The senior executives consist of board members, general manager and deputy general managers.

NOTE 23 - NATURE AND LEVEL OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

a) Foreign currency risk and related sensitivity analysis

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

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO CONSOLIDATED PERIOD ENDED FINANCIAL STATEMENT AT 31 MARCH 2020

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

NOTE 23 - 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 March 2020	TRY equivalent (functional currency)	USD	EUR	GBP
1. Trade receivables	473,634	17,800	49,568	2
2a. Monetary financial assets (including cash, bank accounts)	94,067	12,895	1,392	-
2b. Non-monetary financial assets	-	-	-	-
3. Other	26	4	-	-
4. Current assets (1+2+3)	567,727	30,699	50,960	2
5. Trade receivables	-	-	-	-
6a. Monetary financial assets	-	-	-	-
6b. Non-monetary financial assets	-	-	-	-
7. Other	-	-	-	-
8. Non-current assets (5+6+7)	-	-	-	-
9. Total assets (4+8)	567,727	30,699	50,960	2
10. Trade payables	(208,282)	(19,937)	(10,533)	(295)
11. Financial liabilities	(51)	-	(7)	-
12a. Monetary other liabilities	(217,960)	(33,378)	(65)	-
12b. Non-monetary other liabilities	-	-	-	-
13. Current liabilities (10+11+12)	(426,293)	(53,315)	(10,605)	(295)
14. Trade payables	-	-	-	-
15. Financial liabilities	(144,300)	-	(20,000)	-
16a. Monetary other liabilities	(167,812)	(25,754)	-	-
16b. Non-monetary other liabilities	-	-	-	-
17. Non-current liabilities (14+15+16)	(312,112)	(25,754)	(20,000)	-
18. Total liabilities (13+17)	(738,405)	(79,069)	(30,605)	(295)
Net balance sheet position (9+18)	(170,678)	(48,370)	20,355	(293)
19. Net asset/(liability) position of off-balance sheet derivative instruments((19a-19b)	177,977	50,013	(20,500)	-
19a. Hedged total assets amount	379,997	50,013	7,500	-
19b. Hedged total liabilities amount	(202,020)	-	(28,000)	-
20. Net foreign currency asset/(liability) position (9+18+19)	7,299	1,643	(145)	(293)
21. Net foreign currency asset/(liability) position of monetary items (=1+2a+5+6a-10-11-12a-14-15-16a)	(170,704)	(48,374)	20,355	(293)
22. Total fair value of financial instruments used for foreign currency hedging	1,719	-	(59)	1,778
23. Export (31 March 2020)	292,255	29,330	16,212	2
24. Import (31 March 2020)	219,127	14,746	18,929	378

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NOTE 23 - NATURE AND LEVEL OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (Continued)

31 December 2019	TRY equivalent (functional currency)	USD	EUR	GBP
1. Trade receivables	760,010	29,718	87,717	14
2a. Monetary financial assets (including cash, bank accounts)	19,717	2,877	395	-
2b. Non-monetary financial assets	-	-	-	-
3. Other	24	4	-	-
4. Current assets (1+2+3)	779,751	32,599	88,112	14
5. Trade receivables	-	-	-	-
6a. Monetary financial assets	-	-	-	-
6b. Non-monetary financial assets	-	-	-	-
7. Other	-	-	-	-
8. Non-current assets (5+6+7)	-	-	-	-
9. Total assets (4+8)	779,751	32,599	88,112	14
10. Trade payables	(147,618)	(14,402)	(9,218)	(98)
11. Financial liabilities	(140,487)	-	(21,124)	-
12a. Monetary other liabilities	(244,327)	(40,940)	(138)	(28)
12b. Non-monetary other liabilities	-	-	-	-
13. Current liabilities (10+11+12)	(532,432)	(55,342)	(30,480)	(126)
14. Trade payables	-	-	-	-
15. Financial liabilities	(133,012)	-	(20,000)	-
16a. Monetary other liabilities	(152,983)	(25,754)	-	-
16b. Non-monetary other liabilities	-	-	-	-
17. Non-current liabilities (14+15+16)	(285,995)	(25,754)	(20,000)	-
18. Total liabilities (13+17)	(818,427)	(81,096)	(50,480)	(126)
Net balance sheet position (9+18)	(38,676)	(48,497)	37,632	(112)
19. Net asset/(liability) position of off-balance sheet derivative instruments (19a-19b)	49,641	51,461	(38,500)	-
19a. Hedged total assets amount	305,689	51,461	-	-
19b. Hedged total liabilities amount	(256,048)	-	(38,500)	-
20. Net foreign currency asset/(liability) position (9+18+19)	10,965	2,964	(868)	(112)
21. Net foreign currency asset/(liability) position of monetary items (=1+2a+5+6a-10-11-12a-14-15-16a)	(38,701)	(48,501)	37,632	(112)
22. Total fair value of financial instruments used for foreign currency hedging	1,100	-	851	249
23. Export (31 March 2019)	305,039	822	19,116	136
24. Import (31 March 2019)	171,041	11,224	17,865	301

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NOTES TO CONSOLIDATED PERIOD ENDED FINANCIAL STATEMENT AT 31 MARCH 2020

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NOTE 23 - NATURE AND LEVEL OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (Continued)

The following table demonstrates the sensitivity to a possible change of 10% in the USD, Euro and GBP exchange rates, with all other variables held constant, on the Group's income before tax as of 31 March 2020 and 31 December 2019:

31 March 2020	Profit before tax Appreciation of foreign currency	Profit before tax Depreciation of foreign currency
<i>In case 10% appreciation of USD against TRY:</i>		
1- USD net asset/liability	1,071	(1,071)
2- Amount hedged for USD risk (-)	-	-
3- USD net effect (1+2)	1,071	(1,071)
<i>In case 10% appreciation of EUR against TRY:</i>		
4- EUR net asset/liability	(105)	105
5- Amount hedged for EUR risk (-)	-	-
6- EUR net effect (4+5)	(105)	105
<i>In case 10% appreciation of GBP against TRY:</i>		
7- GBP net asset/liability	(236)	236
8- Amount hedged for GBP risk (-)	-	-
9- GBP net effect (7+8)	(236)	236
Total (3+6+9)	730	(730)
31 December 2019	Profit before tax Appreciation of foreign currency	Profit before tax Depreciation of foreign currency
<i>In case 10% appreciation of USD against TRY:</i>		
1- USD net asset/liability	1,761	(1,761)
2- Amount hedged for USD risk (-)	-	-
3- USD net effect (1+2)	1,761	(1,761)
<i>In case 10% appreciation of EUR against TRY:</i>		
4- EUR net asset/liability	(577)	577
5- Amount hedged for EUR risk (-)	-	-
6- EUR net effect (4+5)	(577)	577
<i>In case 10% appreciation of GBP against TRY:</i>		
7- GBP net asset/liability	(87)	87
8- Amount hedged for GBP risk (-)	-	-
9- GBP net effect (7+8)	(87)	87
Total (3+6+9)	1,097	(1,097)

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NOTES TO CONSOLIDATED PERIOD ENDED FINANCIAL STATEMENT AT 31 MARCH 2020

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NOTE 24 - FINANCIAL INSTRUMENTS

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

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

The following table presents the Group's assets that are measured at fair value at 31 March 2020 and 31 December 2019:

31 March 2020

Liabilities	Level 1	Level 2	Level 3	Total
Derivative financial instruments	-	1,718	-	1,718
	-	1,718	-	1,718

31 December 2019

Liabilities	Level 1	Level 2	Level 3	Total
Derivative financial instruments	-	1,100	-	1,100
	-	1,100	-	1,100

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 PERIOD ENDED FINANCIAL STATEMENT AT 31 MARCH 2020

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

NOTE 25 - SUBSEQUENT EVENTS

The possible impact of COVID-19 (coronavirus), which has taken a toll around the globe, on the activities and financial position of the Company is monitored meticulously and we swiftly take actions to make sure our Company is affected as little as possible. Due to the slowdown in general economic conditions and in the industry where the Company operates caused by the coronavirus, disruptions may occur in the supply, production and sales processes of the Company. Therefore, production between 25 March 2020 and 20 April 2020 was suspended in the Company's Sakarya facility. It is still unclear, both in Turkey and around the world, how long the impact of the coronavirus will last and to what extent the virus will continue to spread. It will be possible to make a more clear and accurate estimation for the medium and long-term when the impact and duration of the virus become more evident. Therefore, since the economic impact of the outbreak is unclear as of the reporting date, the impact of the Company's operations on its financial statements cannot be estimated properly.

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