OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

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

(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. Our 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 balance sheet as at 31 December 2020, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended and notes to the consolidated financial statements comprising a summary of significant accounting policies.

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2020, 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.

PwC Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş.
BJK Plaza, Süleyman Seba Caddesi No:48 B Blok Kat:9 Akaretler Beşiktaş 34357 İstanbul-Turkey
T: +90 212 326 6060, F: +90 212 326 6050, www.pwc.com.tr   Mersis Numaramız: 0-1460-0224-0500015

Key Audit Matters	How the key audit matter was addressed in the audit
Provision for Warranty Expenses As explained in Note 15, the Group has provision for warranty expenses amounting to TRY134,240 thousand as of 31 December 2020. The Group calculates provision for warranty expenses for possible future claims, maintenance and repair expenses in the following years for products sold in the current year. Provision for warranty expenses are calculated based on the remaining warranty period per vehicle and the provision for warranty expenses per vehicle estimated using the previous years' data. We focused on this matter during our audit for the reasons below: a) the amount of the provision for warranty expenses balance is material in the consolidated financial statements b) the provision for warranty expenses 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.	We performed the following audit procedures to test the reasonableness of the provision for warranty expenses: • We tested the controls related to reviewing and approving the Group's assumptions in establishing the accounting estimates used. • We tested the remaining warranty period per vehicle as follows: - Group management provided us with the provision for warranty expenses 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. - We tested the mathematical accuracy of the remaining warranty period calculated for each vehicle sold by recalculation. • We tested the provision for warranty per vehicle estimated using the current and previous years' actual warranty expenses as stated below: - We compared the consistency of the actual warranty expenses with the Group management's past estimations and assumptions. - The Group calculates the current year's provision for warranty expense 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 provision for warranty expense taking into account the actual warranty expenses and fluctuations in the foreign exchange rate and compared this amount with the provision for warranty expense calculated by the Group. - We tested the Group's actual warranty expenses for the current period using by sampling method.

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.

- 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 2020 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 4 February 2021.

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

Cihan Harman, SMMM
Partner

Istanbul, 4 February 2021

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

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

CONTENT **PAGE**

CONSOLIDATED BALANCE SHEETS AS OF 31 DECEMBER 2020 AND 2019

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

	Notes	(Audited) 31 December 2020	(Audited) 31 December 2019
Assets			
Current assets			
Cash and cash equivalents	4	517,422	222,722
Trade receivables	8	1,188,748	896,618
Due from related parties	*27*	*440,683*	*219,900*
Due from other parties	*8*	*748,065*	*676,718*
Other receivables	9	450	470
Inventories	10	1,335,582	768,185
Derivative financial instruments	7	15,937	-
Prepaid expenses	17	19,444	8,646
Current tax assets		281	-
Other current assets	17	100,649	46,003
Total current assets		**3,178,513**	**1,942,644**
Non-current assets			
Trade receivables	8	130,567	51,001
Other receivables	9	2,656	874
Investments accounted for using the equity method	5	169,689	56,162
Financial investments	11	147	147
Property, plant and equipment	12	227,014	129,072
Right of use assets	12	19,485	23,281
Intangible assets	13	500,727	372,539
Deferred income tax asset	25	96,285	101,997
Prepaid expenses	17	9,092	-
Total non-current assets		**1,155,662**	**735,073**
Total assets		**4,334,175**	**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 DECEMBER 2020 AND 2019

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

	Notes	(Audited) 31 December 2020	(Audited) 31 December 2019
Liabilities			
Current liabilities			
Short-term borrowings	6	586,057	246,400
Bank loans	*6*	*577,078*	*236,856*
Short-term lease liabilities	*6*	*8,979*	*9,544*
Short-term portion of long-term borrowings	6	289,014	7,509
Bank loans	*6*	*289,014*	*7,509*
Trade payables	8	349,519	256,191
Due to related parties	*27*	*58,964*	*29,731*
Due to other parties	*8*	*290,555*	*226,460*
Derivative financial instruments	*7*	-	1,100
Employee benefit obligations	17	51,147	38,276
Other payables	9	48,012	46,434
Liabilities from customer contracts	17	538,712	288,137
Government promotion and subsidies	14	2,895	314
Short-term provisions	15	234,231	147,505
Provisions for employee benefits	16	*15,880*	*12,520*
Other provisions		*218,351*	*134,985*
Other current liabilities	17	27,097	5,881
Total current liabilities		**2,126,684**	**1,037,747**
Non-current liabilities			
Long-term borrowings	6	978,993	547,940
Bank loans	6	*964,949*	*533,012*
Long-term lease liabilities	6	*14,044*	*14,928*
Government promotion and subsidies	14	2,314	1,392
Long-term provisions	16	63,725	48,460
Provisions for employee benefits	*16*	*63,725*	*48,460*
Liabilities from customer contracts	17	155,116	404,532
Total non-current liabilities		**1,200,148**	**1,002,324**
Total liabilities		**3,326,832**	**2,040,071**
Equity			
Paid-in share capital	18	24,000	24,000
Inflation adjustment on share capital	18	52,743	52,743
Restricted reserves	18	93,650	73,770
Accumulated other comprehensive income and expense that will not be reclassified to statement of profit or loss	18	(11,589)	(9,741)
Defined benefit plans remeasurement losses	*18*	*(11,589)*	*(9,741)*
Accumulated other comprehensive income and expense that may be reclassified to statement of profit or loss		(59,103)	(12,380)
Currency translation differences		*(59,103)*	*(12,380)*
Retained earnings	18	289,374	157,662
Net profit for the period	18	618,268	351,592
Total equity		**1,007,343**	**637,646**
Total liabilities and equity		**4,334,175**	**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 DECEMBER 2020 AND 2019

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

	Notes	(Audited) 1 January - 31 December 2020	(Audited) 1 January - 31 December 2019
Net Sales	19	2,908,711	2,430,643
Cost of sales (-)	19	(1,714,567)	(1,511,592)
GROSS PROFIT		**1,194,144**	**919,051**
Marketing expenses (-)	20	(382,208)	(387,524)
General administrative expenses (-)	20	(149,634)	(120,006)
Research and development expenses (-)	20	(87,325)	(59,061)
Other operating income	22	453,914	284,663
Other operating expenses (-)	22	(392,901)	(173,177)
OPERATING PROFIT		**635,990**	**463,946**
Income from investing activities		787	541
Expenses from investing activities (-)		-	-
Share of profit/loss of investments accounted for using the equity method, net	5	98,288	39,774
OPERATING INCOME BEFORE FINANCIAL EXPENSES		**735,065**	**504,261**
Financial income	23	95,191	34,670
Financial expense (-)	24	(205,070)	(192,577)
PROFIT BEFORE TAX		**625,186**	**346,354**
Tax income/(expense) from continued operations			
Current tax expense (-)	25	(685)	(4,960)
Deferred tax income	25	(6,233)	10,198
PROFIT/LOSS FOR THE PERIOD		**618,268**	**351,592**
Items that will not be reclassified to statement of profit or loss			
Remeasurement (losses)/gains		(2,369)	(7,890)
Deferred tax income/(expense)		521	1,735
Items that may be reclassified to statement of profit or loss			
Currency translation differences of investments accounted for using the equity method		15,239	3,086
Currency translation differences		(61,962)	(28,463)
Other comprehensive income		**(48,571)**	**(31,532)**
TOTAL COMPREHENSIVE INCOME		**569,697**	**320,060**
Earnings per share (Kr)	**26**	**2,576**	**1,465**

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE PERIODS 1 JANUARY - 31 DECEMBER 2020 AND 2019

(Amounts expressed in thousand Turkish Lira ("TRY") 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
1 January 2019 – 31 December 2019	**Beginning of the period**	**24,000**	**52,743**	**66,678**	**(3,586)**	**12,997**	**72,418**	**164,336**	**389,586**
	Transfers	-	-	7,092	-	-	157,244	(164,336)	-
	Dividends paid	-	-	-	-	-	(72,000)	-	(72,000)
	Total comprehensive income	-	-	-	(6,155)	(25,377)	-	351,592	320,060
	End of the period	**24,000**	**52,743**	**73,770**	**(9,741)**	**(12,380)**	**157,662**	**351,592**	**637,646**
1 January 2020 – 31 December 2020	**Beginning of the period**	**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	-	-	-	(1,848)	(46,723)	-	618,268	569,697
	End of the period	**24,000**	**52,743**	**93,650**	**(11,589)**	**(59,103)**	**289,374**	**618,268**	**1,007,343**

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

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	(Audited) 1 January - 31 December 2020	(Audited) 1 January - 31 December 2019
CASH FLOWS FROM OPERATING ACTIVITIES		**(51,942)**	**424,299**
Net profit/(loss) for the period		618,268	351,592
Adjustments to reconcile income before taxes to net cash flows from operating activities:		**310,247**	**278,013**
Depreciation and amortization	12, 13	**96,714**	**79,298**
Adjustments in relation to impairment:		**27,300**	**7,075**
- Provision for doubtful receivables	8	14,942	3,705
- Provision for inventories	10	12,358	3,370
Adjustments in relation to provision:		**166,522**	**118,952**
- Provision for employee benefits		20,405	11,834
- Provision for warranty expenses	15	119,094	100,090
- Adjustments for other provisions		27,023	7,028
Adjustments in relation to interest income and expenses:		**82,792**	**127,330**
- Interest income	23	(37,526)	(1,887)
- Interest expense	24	120,318	129,217
Adjustments in relation to unrealised foreign exchange gains and losses	6	**40,524**	**25,737**
Adjustments in relation to fair value gains and losses		**(11,448)**	**(34,826)**
- Fair value losses/(gains) on financial derivative instruments, net		(11,448)	(34,826)
Adjustments for undistributed profits of investments accounted for using equity method		**(98,288)**	**(39,774)**
Adjustments for undistributed profits of joint ventures	**5**	(98,288)	(39,774)
Adjustments for tax income/(expenses)		**6,918**	**(5,238)**
Adjustments in relation to gains or losses on sales of property, plant and equipment		**(787)**	**(541)**
- Gain on sale of property, plant and equipment's		(787)	(541)
Changes in net working capital		**(907,282)**	**(163,176)**
Adjustments for increase/decrease in trade receivables		**(387,218)**	**(73,105)**
Adjustments for increase/decrease in inventories		**(579,755)**	**(81,542)**
Adjustments for increase/decrease in trade payables		**93,328**	**(13,268)**
Adjustments for other increase (decrease) in working capital		**(33,637)**	**4,739**
- Increase/(decrease) in other assets related to activities		(76,298)	13,411
- Increase/(decrease) in other liabilities related to activities		42,661	(8,672)
Cash flows from operations		**21,233**	**466,429**
Payments in relation to employee benefits	16	**(4,149)**	**(7,422)**
Payments in relation to other provisions	15	**(62,751)**	**(65,971)**
Deductions/(payments) in relation to income tax		**(685)**	**(4,960)**
Other cash collections/(payments)		**(5,590)**	**36,223**
CASH FLOWS FROM INVESTING ACTIVITIES		**(310,688)**	**(183,770)**
Proceeds from sale of property, plant and equipment and intangible assets		**1,012**	**1,471**
- Proceeds from sale of property, plant and equipment		1,012	1,471
Cash outflows due to purchase of property, plant and equipment and intangible assets		**(311,700)**	**(185,094)**
- Purchase of property, plant and equipment	12	(112,414)	(36,970)
- Purchase of intangible assets	13	(199,286)	(148,124)
Other cash inflows/(outflows)		**-**	**(147)**
CASH FLOWS FROM FINANCING ACTIVITIES		**719,425**	**(162,232)**
Cash inflow from due to borrowings		**2,049,296**	**1,427,576**
- Proceeds from bank borrowings	6	2,049,296	1,427,576
Cash outflow due to repayment of borrowings		**(1,047,513)**	**(1,391,151)**
- Repayments of borrowings	6	(1,047,513)	(1,391,151)
Cash outflows related to loan payments arising from lease agreements		**(10,984)**	**(9,164)**
Dividends paid		**(200,000)**	**(72,000)**
Interest paid		**(108,900)**	**(119,380)**
Interest received		**37,526**	**1,887**
NET DECREASE IN CASH AND CASH EQUIVALENTS BEFORE THE EFFECT OF CURRENCY TRANSLATION DIFFERENCES		**356,795**	**78,297**
Currency translation difference on cash and cash equivalents		**(62,095)**	**(28,592)**
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**294,700**	**49,705**
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	**517,422**	**222,722**

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

(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 LLC	United Arab Emirates	Sales and marketing	Automotive
Otokar Europe Filiala Bucuresti SRL	Romania	Sales and marketing	Automotive
Otokar Central Asia Limited	Kazakhistan	Sales and marketing	Automotive

Joint Ventures	Country	Main activity	Field of activity
Al Jasoor Heavy Vehicles Industry	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.

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 its international sales and follow up export activities. Since the financial activities of Otokar Central Asia Limited Company have not started yet, the investment was presented under financial investments in the consolidated financial statements.

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

	2020		2019	
	Period end	**Average**	**Period end**	**Average**
Total personnel number	2,258	2,110	1,957	1,994

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

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

The consolidated financial statements for the year ended 31 December 2020 were authorized for issue and signed by the Board of Directors of Otokar on 4 February 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 December 2020, 27.85% of the shares are quated on the BIST.

As of 31 December 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 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 (TRY) in accordance with regulations on accounting and reporting framework and the Uniform Chart of Accounts issued by the Ministry of Finance. Subsidiaries operating in foreign countries have prepared their statutory financial statements in accordance with the laws and regulations applicable in the countries where they operate.

The consolidated financial statements are presented in accordance with the formats specified in the "Announcement on TMS Taxonomy" and "Financial Table Samples Usage Guide" published by the POA on 15 April 2019.

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

2.1 Basis of presentation of consolidated financial statements (Continued)

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, prorate 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.

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 (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 December 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 year ended 31 December 2020 are consistent with those used in the preparation of financial statements for the year ended 31 December 2019.

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

2.3 Changes in accounting policies

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

2.3.1 New and revised standards and comments:

a. Standards, amendments and interpretations applicable as at 31 December 2020:

- **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.

  This change does not have any impact on the Group's financial performance.

- **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. This change does not have any impact on the Group's financial performance.

- **Amendments to IFRS 9, IAS 39 and IFRS 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. The effect of this change on the Group's financial position is evaluated.

- **Amendment to IFRS 16, 'Leases' - Covid - 19 related rent concessions;** effective from Annual periods beginning on or after 1 June 2020. As a result of the coronavirus (COVID - 19) pandemic, rent concessions have been granted to lessees. Such concessions might take a variety of forms, including payment holidays and deferral of lease payments. On 28 May 2020, the IASB published an amendment to IFRS 16 that provides an optional practical expedient for lessees from assessing whether a rent concession related to COVID - 19 is a lease modification. Lessees can elect to account for such rent concessions in the same way as they would if they were not lease modifications. In many cases, this will result in accounting for the concession as variable lease payments in the period(s) in which the event or condition that triggers the reduced payment occurs. This change does not have any impact on the Group's financial performance.

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

2.3 Changes in accounting policies (Continued)

2.3.1 New and revised standards and comments (Continued):

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

- **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. This change does not have any impact on the Group's financial performance.

- **A number of narrow - scope amendments to IFRS 3, IAS 16, IAS 37 and some annual improvements on IFRS 1, IFRS 9, IAS 41 and IFRS 16;** effective from Annual periods beginning on or after 1 January 2022.

    - **Amendments to IFRS 3**, "Business combinations" update a reference in IFRS 3 to the Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations.

    - **Amendments to IAS 16**, "Property, plant and equipment" prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, a company will recognise such sales proceeds and related cost in profit or loss.

    - **Amendments to IAS 37**, "Provisions, contingent liabilities and contingent assets" specify which costs a company includes when assessing whether a contract will be loss-making.

    Annual improvements make minor amendments to IFRS 1, "First - time Adoption of IFRS", IFRS 9, "Financial instruments", IAS 41, "Agriculture" and the Illustrative Examples accompanying IFRS 16, "Leases".

- **Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 Interest Rate Benchmark Reform Phase 2;** effective from Annual periods beginning on or after 1 January 2021. The Phase 2 amendments address issues that arise from the implementation of the reforms, including the replacement of one benchmark with an alternative one.

The effects of these changes on the financial position and performance of the Group are evaluated.

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

2.3 Changes in accounting policies (Continued)

2.3.3 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) Deferred tax asset is recognised to the extent that taxable profit will be available against which the deductible temporary differences can be utilized. When taxable profit is probable, deferred tax asset is recognised for all deductable temporary differences. For the year ended 31 December 2020, 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.

b) The Group determines Provision for warranty expense by considering the past warranty expenses and remaining warranty period per vehicle.

c) 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.

d) The Group has made certain assumptions based on experiences of technical personnel in determining impairment for inventories.

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 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.

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

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 December 2020 and 2019:

	2020		2019	
Subsidiaries	**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	100	100
Otokar Central Asia Limited	100	100	100	100

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 2020 and 2019:

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

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

2.4 Summary of significant accounting policies (Continued)

Group accounting (Continued)

Joint Ventures (Continued)

	2020		2019	
Joint ventures	**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:

(a) Identification of customer contracts,
(b) Identification of performance obligations,
(c) Determination of transaction price in the contract,
(d) Allocation of price to performance obligations,
(e) Recognition of revenue when the performance obligations are fulfilled.

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.

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

2.4 Summary of significant accounting policies (Continued)

Revenue recognition (Continued)

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.

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).

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

2.4 Summary of significant accounting policies (Continued)

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).

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
Special costs	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.

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

2.4 Summary of significant accounting policies (Continued)

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.

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.

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

2.4 Summary of significant accounting policies (Continued)

Taxes calculated on corporate income

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 22% 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.

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.

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.

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

2.4 Summary of significant accounting policies (Continued)

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.

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

2.4 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.

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

2.4 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.

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

2.4 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.

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

2.4 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.

Leases

The Group – as a lessee

At inception of a contract, the Group assesses whether a contract is, or contains a lease. 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. To assess whether a contract conveys the right to control the use of an identified asset, The Group assess whether:

a) the contract involved the use of an identified asset – this may be specified explicitly or implicitly.
b) the asset should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, the asset is not identified.
c) the Group has the right to obtain substantially all of the economic benefits from the use of an asset throughout the period of use; and
d) the Group has the right to direct use of the asset. The Group concludes to have the right of use, when it is predetermined how and for what purpose the Group will use the asset. The Group has the right to direct use of asset if either:

    i. the Group has the right to operate (or to have the right to direct others to operate) the asset over its useful life and the lessor does not have the rights to change the terms to operate or;
    ii. the Group designed the asset (or the specific features) in a way that predetermines how and for what purpose it is used.

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices.

Right of use asset

The right of use asset is initially recognized at cost comprising of:

a) amount of the initial measurement of the lease liability;
b) any lease payments made at or before the commencement date, less any lease incentives received;
c) any initial direct costs incurred by the Group; and
d) an estimate of costs to be incurred by the lessee for restoring the underlying asset to the condition required by the terms and conditions of the lease (unless those costs are incurred to produce inventories)

The Group measure the right of use asset:

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

2.4 Summary of significant accounting policies (Continued)

Leases (Continued)

The Group - as a lessee (Continued)

Right of use asset (Continued)

a) After netting-off depreciation and reducing impairment losses from right of use asset,
b) adjusted for certain re-measurements of the lease liability recognized at the present value.

The Group applies the depreciation provisions in IAS 16 "Property, Plant and Equipment" while depreciating the right of use asset.

IAS 36 applies the "Impairment of Assets" standard to determine whether the right-of-use asset is impaired and to account for any impairment loss identified.

Lease Liability

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date. Lease liabilities are discounted to present value by using the interest rate implicit in the lease if readily determined or with the Group's incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise the following:

a) Fixed payments, including in-substance fixed payments;
b) variable lease payments that depend on an index or a rate, initially measured using the index or rate as the commencement date,
c) payments of penalties for terminating the lease if the lease term indicates that the tenant will use an option to terminate the lease.

After the actual lease commences, the Group measures the lease liability as follows:

a) increasing the carrying amount to reflect interest on lease liability,
b) reducing the carrying amount to reflect the lease payments made and
c) Remeasures the ledger value to reflect re-evaluations and reconstructions, if any. The Group reflects the remeasurement amount of the lease liability as an adjustment to the right-of-use asset in its financial statements.

Extension and termination options

In determining the lease liability, the Group considers the extension and termination options. The majority of extension and termination options held are exercisable both by the group and by the respective lessor. Extension options are included in the lease term if the lease is reasonably certain to be extended. The group remeasures the lease term, if a significant event or a significant change in circumstances occurs which affects the initial assessment. If there is a significant change in the conditions, the evaluation made is reviewed by the management. As a result of the evaluations made in the current period, there is no lease obligation or asset usage right arising from the inclusion of the extension and early termination options in the lease term.

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

2.4 Summary of significant accounting policies (Continued)

Leases (Continued)

The Group - as a lessee (Continued)

Lease Liability (Continued)

Variable lease payments

Lease payments arising from a portion of the Group's lease agreements consist of variable lease payments. These variable lease payments, which are not covered by the TFRS 16 standard, are recorded as rent expense in the income statement in the relevant period.

As the Lessor

The Group does not have any significant activity as the lessor.

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.

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

2.4 Summary of significant accounting policies (Continued)

Impairment of non-financial assets

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.

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.

2.5 Going concern

The Group has prepared its consolidated financial statements according to the going concern principle.

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

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

2.6 Significant changes in the current period

In connection with the Covid-19 pandemic and paralel to the current conditions/slowdown in the global economy, there have been distruptions in the supply and sales processes and especially during the lockdowns the manufacturing have been temporarily suspended. In the context, production activities were temporarily suspended at the Group's facility in Sakarya between 25.03.2020 – 20.04.2020.

The impact of Covid-19 (Coronavirus) pandemic to the Group's operations and financial results has been monitored and actions have been immediately taken for the Group to mitigate the impacts of the pandemic. In the meantime, the Group has taken measures for stock optimization and for savings on operational and capital expenditures. Cash management strategies have been reviewed for a stronger liquidity position. Emergency plan and risk analysis have been revised.

With the removal of restrictions to prevent outbreaks, production and sales activities continued without interruption as of the balance sheet date. It is still unclear, both in Turkey and around the world, how long the impact of the Covid-19 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. In preparation of the consolidated financial statements as of 31 December 2020, the Group has assessed the possible impacts of Covid-19 pandemic on the financial statements and reviewed the critical estimates and assumptions. Within this scope, the Group has tested the financial assets, inventories, tangible assets, goodwill and brands for a possible impairment and no impairments were identified.

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.

NOTE 4 - CASH AND CASH EQUIVALENTS

	31 December 2020	31 December 2019
Banks		
- Time deposits	452,463	144,016
- Demand deposits	64,949	78,649
Other	10	57
	517,422	**222,722**

As of 31 December 2020, TRY452,463 thousand of the total amount of time deposits amounting to TRY86,718 thousand is denominated in foreign currency and the annual effective interest rate is 0.74% and has a maturity of 4 days. The annual effective interest rate of the remaining TRY365,745 thousand is 19.11% and has a maturity of 15 days.

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

NOTE 4 - CASH AND CASH EQUIVALENTS (Continued)

(As of 31 December 2019, TRY144,016 thousand of the total amount of time deposits amounting to TRY62,745 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.)

As of 31 December 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 joint venture is as follows :

	2020		2019	
Joint ventures	**(%)**	**Amount**	**(%)**	**Amount**
Al Jasoor	49	169,689	49	56,162
		169,689		**56,162**

The movement of joint venture is as follows:

	2020	**2019**
1 January	56,162	13,305
Shares of profit/(loss)	98,288	39,774
Currency translation differences	15,239	3,083
31 December	**169,689**	**56,162**

The summary of the financial statements of Al Jasoor as of 31 December 2020 and 2019 is as follows:

	31 December 2020	**31 December 2019**
Total assets	1,130,199	989,834
Total liabilities	(783,895)	(875,218)
Net assets	**346,304**	**114,616**
Ownership of the Group	49%	49%
Net asset share of the Group	**169,689**	**56,162**

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

NOTE 6 - BORROWINGS

Short term borrowings

31 December 2020	Maturities	Annual effective interest rate (%)	TRY equivalent
Bank loans			
RON credits	30 June 2021	5.18	304,455
TRY credits	7 June 2021	9.05	272,623
			577,078
Short-term lease liabilities			
EUR payables	-	2.00	6,399
TRY payables	-	10.00	2,580
			8,979
Total short term borrowings			**586,057**

Short-term portion of long-term borrowings (*)

31 December 2020	Maturities	Annual effective interest rate (%)	TRY equivalent
Bank loans			
EUR credits	-	2.73	181,330
TRY credits	-	9.19	107,684
			289,014

Long term borrowings (*)

31 December 2020	Maturities	Annual effective interest rate (%)	TRY equivalent
Bank loans			
TRY credits	4 October 2021 - 5 August 2025	9.19	784,802
EUR credits	20 September 2021 - 25 January 2023	2.73	180,147
			964,949

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

NOTE 6 - BORROWINGS (Continued)

Long term borrowings (Continued) (*)

31 December 2020	Maturities	Annual effective interest rate (%)	TRY equivalent
Long-term lease liabilities			
EUR payables	-	2.00	10,009
TRY payables	-	10.00	4,035
			14,044
Total long term borrowings			**978,993**

(*) Bearing fixed interest rate

Short term borrowings

31 December 2019	Maturities	Annual effective interest rate (%)	TRY equivalent
Bank loan			
EUR credits	2 January 2020	1.04	139,676
RON credits	14 December 2020	5.22	97,180
			236,856
Short-term lease liabilities			
EUR payables	-	6.00	6,802
TRY payables	-	25.00	2,742
			9,544
Total short term borrowings			**246,400**

Short-term portion of long-term borrowings (*)

31 December 2019	Maturities	Annual effective interest rate (%)	TRY equivalent
Bank loans			
TRY credits	-	14.87	6,697
EUR credits	-	2.35	812
			7,509

(*) Bearing fixed interest rate

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

NOTE 6 - BORROWINGS (Continued)

Long term borrowings(*)

31 December 2019	Maturities	Annual effective interest rate (%)	TRY equivalent
Bank loans			
TRY credits	1 October 2021 - 3 October 2022	14.87	400,000
EUR credits	20 September 2021	2.35	133,012
			533,012
Long-term lease liabilities			
EUR payables	-	6.00	10,639
TRY payables	-	25.00	4,289
			14,928
Total long term borrowings			**547,940**

(*) Bearing fixed interest rate

As of 31 December 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 December 2020 and 2019 are as follows:

	2020	**2019**
1 January	801,849	707,547
Borrowing received during the period	2,049,296	1,427,576
Lease liabilities included in the balance sheet for the first time within the scope of TFRS 16	-	17,855
Cash outflows from debt payments from lease agreements	(10,984)	(9,457)
Changes in lease liabilities within the scope of TFRS 16	9,474	13,905
Principal payments (-)	(1,047,513)	(1,391,151)
Change in interest accruals	11,418	9,837
Change in exchange rates	40,524	25,737
31 December	**1,854,064**	**801,849**

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

NOTE 6 - BORROWINGS (Continued)

	31 December 2020		31 December 2019	
	Carrying values	**Fair values**	**Carrying values**	**Fair values**
Fixed interest	1,526,586	1,489,141	680,197	702,200
Floating rate (*)	304,455	304,455	97,180	97,180
	1,831,041	1,793,596	777,377	799,380

(*) The fair values of variable rate loans converge to their book values.

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**
31 December 2020			
Forward transactions	691,263	7 January 2021- 29 January 2021	15,937
Short-term derivative financial instruments	691,263		15,937
Total derivative financial instruments	**691,263**		**15,937**

	Contract amount	**Current period contract maturity**	**Fair value assets**
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)**

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

NOTE 8 - TRADE RECEIVABLES AND PAYABLES

Trade receivables

	31 December 2020	31 December 2019
Trade receivables, net	699,074	591,833
Notes receivables, net	110,515	131,586
	809,589	**723,419**
Less: provision for doubtful receivables	(61,524)	(46,701)
Short-term trade receivables	**748,065**	**676,718**
Trade receivables from related parties (Note 27)	440,683	219,900
Short-term trade receivables	**1,188,748**	**896,618**
Long-term notes receivable, net	130,567	51,001
Long-term trade receivables	**130,567**	**51,001**

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

As of 31 December 2020 and 2019, 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 2020, the total trade receivable from dealers amounting to TRY108,658 thousand (31 December 2019: TRY92,084 thousand), after provision provided for doubtful receivables, has been secured by mortgages and guarantees at the amount of TRY108,830 thousand (31 December 2019: TRY92,268 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.

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

NOTE 8 - TRADE RECEIVABLES AND PAYABLES (Continued)

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

31 December 2020	
1- 30 day past due	-
1- 3 month past due	-
3- 12 month past due	-
1- 5 year past due	-
Over 5 years past due	325
	325
Amount secured with guarantees	**325**

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	-
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 December 2020 and 2019 are as follows:

	2020	**2019**
As of 1 January	46,701	43,512
Collections	(699)	(684)
Currency translation differences	580	168
Exchange differences	14,942	3,705
31 December	**61,524**	**46,701**

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

NOTE 8 - TRADE RECEIVABLES AND PAYABLES (Continued)

Trade payables

	31 December 2020	31 December 2019
Trade payables, net	290,065	225,948
Notes payables, net	490	512
Short-term other trade payables	**290,555**	**226,460**
Trade payables to related parties (Note 27)	58,964	29,731
Short-term trade payables	**349,519**	**256,191**

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

As of 31 December 2020 and 2019, 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 2020	31 December 2019
Due from personnel	291	362
Deposits and guarantees given	159	108
	450	**470**

Other long-term receivables

	31 December 2020	31 December 2019
Deposits and guarantees given	2,656	874
	2,656	**874**

Short term other receivables

	31 December 2020	31 December 2019
Other miscellaneous payables	48,012	46,434
	48,012	**46,434**

TRY40,725 thousand (31 December 2019: TRY40,725 thousand) of other miscellaneous payables was collected but not credited to statement of profit or loss, since the lawsuit in relation to deductable corporate tax from Research and Development expenses has not been finalised.

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

NOTE 10 - INVENTORIES

	31 December 2020	31 December 2019
Raw material	535,169	229,304
Semi-finished goods	103,059	72,267
Finished goods	346,811	246,131
Merchandise goods	165,437	117,692
Goods in transit	206,826	112,153
Impairment for inventories (*)	(21,720)	(9,362)
	1,335,582	**768,185**

(*) TRY862 thousand of impairment is related to finished goods and TRY20,858 thousand is related to raw materials (31 December 2019: TRY325 thousand of impairment is related to finished goods and TRY818 thousand is related to merchandises and TRY8,219 thousand is related to raw materials.). The impairment has been accounted for under cost of sales.

The movements of impairment for inventories in 2020 and 2019 are as follows:

	2020	2019
1 January	(9,362)	(5,992)
Reversal of provisions	(12,358)	(3,370)
31 December	**(21,720)**	**(9,362)**

NOTE 11 - FINANCIAL INVESTMENTS

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.

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

NOTE 12 - PROPERTY, PLANT AND EQUIPMENT

Movements of property, plant and equipment and related accumulated depreciation for the year ended 31 December 2020.

	1 January 2020	Additions	Currency para translation	Disposal	Transfers	31 December 2020
Cost						
Land	37,437	-	-	-	-	37,437
Land improvements	8,608	312	-	-	-	8,920
Buildings	59,620	1,161	-	-	-	60,781
Machinery and equipment	112,253	8,000	871	(837)	14,513	134,800
Motor vehicles	9,782	4,974	-	(195)	-	14,561
Furniture and fixtures	53,168	20,463	496	(117)	739	74,749
Leasehold improvements	1,117	15	-	-	-	1,132
Construction in process	12,011	77,489	-	(139)	(15,252)	74,109
	293,996	**112,414**	**1,367**	**(1,288)**	**-**	**406,489**
Accumulated depreciation						
Land improvements	(4,730)	(297)	-	-	-	(5,027)
Buildings	(47,350)	(1,232)	-	-	-	(48,582)
Machinery and equipment	(86,988)	(7,053)	(393)	777	-	(93,657)
Motor vehicles	(6,026)	(989)	-	45	-	(6,970)
Furniture and fixtures	(18,910)	(5,309)	(262)	241	-	(24,240)
Special costs	(920)	(79)	-	-	-	(999)
	(164,924)	**(14,959)**	**(655)**	**1,063**	**-**	**(179,475)**
Net book value	**129,072**					**227,014**

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

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

NOTE 12 - PROPERTY, PLANT AND EQUIPMENT (Continued)

Movements of property, plant and equipment and related accumulated depreciation for the year ended 31 December 2019.

	1 January 2019	Additions	Currency translation differences	Disposal	Transfers	31 December 2019
Cost						
Land	37,457	-	-	(20)	-	37,437
Land improvements	8,583	25	-	-	-	8,608
Buildings	58,489	489	-	-	642	59,620
Machinery and equipment	106,570	5,172	115	(70)	466	112,253
Motor vehicles	9,345	1,226	-	(789)	-	9,782
Furniture and fixtures	38,143	11,300	71	(57)	3,711	53,168
Leasehold improvements	1,089	28	-	-	-	1,117
Construction in process	4	18,730	-	-	(6,723)	12,011
	259,680	**36,970**	**186**	**(936)**	**(1,904)**	**293,996**
Accumulated depreciation	(4,432)	(298)	-	-	-	(4,730)
Land improvements	(44,870)	(2,480)	-	-	-	(47,350)
Buildings	(81,205)	(5,758)	(91)	66	-	(86,988)
Machinery and equipment	(5,483)	(721)	-	178	-	(6,026)
Motor vehicles	(15,245)	(3,631)	(49)	15	-	(18,910)
Furniture and fixtures	(842)	(78)	-	-	-	(920)
	(152,077)	**(12,966)**	**(140)**	**259**	**-**	**(164,924)**
Net book value	**107,603**					**129,072**

The distribution of depreciation and amortization expenses of tangible and intangible assets for the years ended 31 December 2020 and 2019 are as follows:

	2020	**2019**
Research and development expenses	70,698	56,256
Right of use assets	10,657	8,187
Cost of goods sold	6,029	5,995
General administrative expenses	3,836	3,276
Depreciation on inventories	2,300	1,577
Development projects in process	2,222	3,048
Selling and marketing expenses	972	959
Currency translation differences	655	140
	97,369	**79,438**

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

NOTE 12 - PROPERTY, PLANT AND EQUIPMENT (Continued)

Right of use assets

The addition and disposal amounts related to right of use assets is occurred TRY7,599 thousand and TRY484 thousand, respectively in 2020. The depreciation expense related to right of use asset for the period 2020 is TRY 10,910 thousand.

The balances of right of use assets as of 31 December 2020 and 2019 and the accumulated depreciation amounts in the relevant periods are as follows:

31 December 2020	Buildings	Motor vehicles	Furniture and fixtures	Total
Cost	21,369	16,399	561	38,329
Accumulated depreciation	(7,386)	(11,072)	(386)	(18,844)
	13,983	**5,327**	**175**	**19,485**

31 December 2019	Buildings	Motor vehicles	Furniture and fixtures	Total
Cost	16,800	13,623	1,045	31,468
Accumulated depreciation	(2,767)	(5,217)	(203)	(8,187)
	14,033	**8,406**	**842**	**23,281**

NOTE 13 - INTANGIBLE ASSETS

Movements of intangible assets and related accumulated amortisation for the years ended 31 December 2020.

	1 January 2020	Addition	Currency translation differences	Disposal	Transfers	31 December 2020
Cost						
Other intangible assets	21,821	4,642	-	-	-	26,463
Development costs	542,609	-	-	-	31,823	574,432
Developments projects in progress	123,643	194,644	-	-	(31,823)	286,464
	688,073	**199,286**	-	-	-	**887,359**
Accumulated amortization						
Other intangible assets	(14,693)	(2,449)	-	-	-	(17,142)
Development costs	(300,841)	(68,649)	-	-	-	(369,490)
	(315,534)	**(71,098)**	-	-	-	**(386,632)**
Net book value	**372,539**					**500,727**

In 2020, the Group has capitalised TRY3,129 thousand (2019: TRY8,684 thousand) of its borrowing costs in relation to its qualifying asset.

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

NOTE 13 - INTANGIBLE ASSETS (Continued)

Movements of intangible assets and related accumulated amortisation for the years ended 31 December 2019

	1 January 2019	Additions	Currency translation differences	Disposals	Transfers	31 December 2019
Costs						
Other intangible assets	18,249	1,881	-	(213)	1,904	21,821
Development costs	427,570	-	-	-	115,039	542,609
Developments projects in progress	92,439	146,243	-	-	(115,039)	123,643
	538,258	**148,124**	**-**	**(213)**	**1,904**	**688,073**
Accumulated amortization						
Other intangible assets	(13,017)	(1,889)	-	213	-	(14,693)
Development costs	(244,585)	(56,256)	-	-	-	(300,841)
	(257,602)	**(58,145)**	**-**	**213**	**-**	**(315,534)**
Net book value	**280,656**					**372,539**

NOTE 14 - GOVERNMENT GRANTS AND INCENTIVES

	31 December 2020	31 December 2019
Short-term	2,895	314
Long-term	2,314	1,392
	5,209	**1,706**

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 income in line with the amortization of the respective development costs.

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

NOTE 15 - PROVISIONS, CONTINGENT ASSETS AND LIABILITIES

Short-term provisions

	31 December 2020	31 December 2019
Other cost allowance	134,240	77,897
Provision for warranty expenses		
Employee benefits	15,880	12,520
short-term provisions (Note 16)	84,111	57,088
Total	**234,231**	**147,505**

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:

The movements of the provision for warranty expenses during the periods ending on 31 December 2020 and 2019 are as follows:

	2020	2019
1 January	77,897	43,778
Additional provisions	119,094	100,090
Disposals/payments (-)	(62,751)	(65,971)
31 December	**134,240**	**77,897**

Provision for warranty expenses

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

	31 December 2020	31 December 2019
a. Total amount of guarantees, pledges and mortgages given the name of legal entity	1,584,476	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	339,921	-
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	-	-
	1,924,397	**1,150,067**

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

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

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

	31 December 2020		**31 December 2019**	
	Original currency	**TRY equivalent**	**Original currency**	**TRY equivalent**
USD	147,855	1,085,331	151,597	900,516
EUR	58,823	529,870	22,452	149,317
TRY	191,425	191,425	91,779	91,779
RON	46,450	85,343	-	-
CNY	29,000	32,428	10,000	8,455
		1,924,397		**1,150,067**

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

	31 December 2020	**31 December 2019**
Bank letters of guarantee	1,595,609	1,150,067
Surety	328,788	-
	1,924,397	**1,150,067**

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

	31 December 2020	**31 December 2019**
Bank letters of guarantee	443,378	245,208
Guarantee notes	12,619	9,974
Guarantee cheques	270	-
Mortgages received	20	4,020
	456,287	**259,202**

Contingent asset

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 2011-2012-2013-2014 but the decision has been requested by the administration for correction. The appeal process is still in progress for 2015.

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

NOTE 16 - EMPLOYEE BENEFITS

	31 December 2020	31 December 2019
Provision for employment termination benefits	63,725	48,460
Provision for unused vacation	15,880	12,520
	79,605	**60,980**

Employment termination benefits

The amount payable consists of one month's salary limited to a maximum of TRY7,117.17 in full for each year of service as of 31 December 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.

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 TRY 7,638.96 in full (1 January 2020: TRY6,730.15 in full), which is effective from 1 January 2021, 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 2020	31 December 2019
Net discount rate (%)	4.63	4.67
Turnover rate to estimate the probability of retirement (%)	97.80	97.66

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

	2020	2019
1 January	48,460	38,235
Interest expense	4,386	3,460
Charge for the period	12,659	6,297
Remeasurement differences	2,369	7,890
Payments	(4,149)	(7,422)
31 December	**63,725**	**48,460**

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 (Note 21)	3,360	2,077
31 December	**15,880**	**12,520**

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

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

a) Prepaid expenses

Short- term prepaid expenses	31 December 2020	31 December 2019
Prepaid expenses	19,444	8,646
	19,444	**8,646**

Long-term prepaid expenses	31 December 2020	31 December 2019
Advances given	9,092	-
	9,092	**-**

b) Other non-current assets

	31 December 2020	31 December 2019
Value added tax receivables	96,884	45,040
Other	3,765	963
	100,649	**46,003**

c) Deferred revenues

Deferred revenues - short term	31 December 2020	31 December 2019
Advances received	508,165	266,602
Deferred maintenance revenues	28,750	21,535
Other	1,797	-
	538,712	**288,137**

Deferred revenues - long term	31 December 2020	31 December 2019
Deferred maintenance revenues	155,116	131,185
Advance received	-	273,347
	155,116	**404,532**

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

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

d) Employee benefits obligation

	31 December 2020	31 December 2019
Payables to employees	22,978	18,543
Social security payables	14,802	10,034
Taxes and funds payable	13,367	9,699
	51,147	**38,276**

e) Other current liabilities

	31 December 2020	31 December 2019
Taxes and funds payable	25,370	3,700
Deferred special consumption tax	418	1,064
Payables to shareholders	147	318
Other	1,162	799
	27,097	**5,881**

NOTE 18 - EQUITY

Share capital

As of 31 December 2020 and 2019, the principal shareholders and their respective shareholding percentages are as follows:

	31 December 2020		31 December 2019	
	TRY	(%)	TRY	(%)
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
	24,000	**100.00**	**24,000**	**100.00**
Inflation adjustment on equity items	52,743		52,743	
	76,743		**76,743**	

(Amounts expressed in thousand Turkish Lira ("TRY") 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 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 2020	**31 December 2019**
Paid-in share capital	24,000	24,000
Inflation adjustment on equity items	52,743	52,743
Restricted reserves	93,650	73,770
Accumulated other comprehensive income and expense that is not subject to reclassification to income or loss	(11,589)	(9,741)
Accumulated other comprehensive income and expense that is subject to reclassification to income or loss	(59,103)	(12,380)
Retained earnings		
- Extraordinary reserves	278,424	146,712
- Inflation adjustments on legal reserves	10,950	10,950
Net income for the year	618,268	351,592
	1,007,343	**637,646**

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

NOTE 18 - EQUITY (Continued)

As of 31 December 2020 and 2019, the restated amounts and the equity restatement differences of the aforementioned nominal values are as follows :

31 December 2020

	Historical value	Inflation adjustments on equity items	Restated value
Share capital	24,000	52,743	76,743
Legal reserves	93,650	10,950	104,600
	117,650	**63,693**	**181,343**

31 December 2019

	Historical value	Inflation adjustments on equity items	Restated value
Share capital	24,000	52,743	76,743
Legal reserves	73,770	10,950	84,720
	97,770	**63,693**	**161,463**

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

	31 December 2020	31 December 2019
Legal reserves	93,650	73,770
Extraordinary reserves	193,566	94,618
	287,216	**168,388**
Dividends distributed during the year based on previous year's net income per statutory financial statements	200,000	72,000
Dividend paid per share (piaster)	0.833	0.300

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

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

NOTE 19 - REVENUE AND COST OF SALES

Net sales

	1 January - 31 December 2020	1 January - 31 December 2019
Domestic sales	714,312	495,401
Export sales	2,210,216	1,957,037
Gross Sales	**2,924,528**	**2,452,438**
Less: sales discounts and returns	(15,817)	(21,795)
Net sales	**2,908,711**	**2,430,643**

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

	1 January - 31 December 2020	1 January - 31 December 2019
Commercial vehicle	1,208,828	1,106,821
Armored vehicle	1,359,452	1,034,333
Other sales (*)	340,431	289,489
	2,908,711	**2,430,643**

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

Cost of sales

	1 January - 31 December 2020	1 January - 31 December 2019
Cost of finished goods sold	(1,583,840)	(1,371,261)
Cost of merchandise goods sold	(130,727)	(140,331)
	(1,714,567)	**(1,511,592)**

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

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

	1 January - 31 December 2020	1 January - 31 December 2019
Sales and marketing expenses	(382,208)	(387,524)
General administrative expenses	(149,634)	(120,006)
Research and development expenses	(87,325)	(59,061)
	(619,167)	**(566,591)**

NOTE 21 - EXPENSES BY NATURE

	1 January - 31 December 2020	1 January - 31 December 2019
Cost of raw material and consumption goods	1,547,333	1,301,930
Personnel expenses	317,846	260,518
Cost of merchandises sold	130,727	139,258
Provision for warranty expenses (Note 15)	119,094	100,090
Sales, incentives and premiums	101,203	40,858
Depreciation and amortization expense	91,027	73,379
Administrative expenses	84,362	84,142
Operational expenses	49,140	36,538
Transportation, distribution and storage expenses	44,365	39,602
Advertising, promotion and promotion costs	9,402	26,900
Change in finished and semi-finished goods	(179,349)	(113,840)
Other expenses	18,584	88,808
	2,333,734	**2,078,183**

The breakdown of personnel expenses for the years 2020 and 2019 is as follows:

	1 January - 31 December 2020	1 January - 31 December 2019
Based on the account it's recorded:		
Cost of sales and inventories on hand	158,420	134,246
Sales and marketing expenses	88,256	71,458
Capitalized development expenditures	86,218	74,086
General administrative expenses	64,284	52,010
Research and development expenses	6,886	2,804
	404,064	**334,604**

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

NOTE 21 - EXPENSES BY NATURE (Continued)

	1 January - 31 December 2020	1 January - 31 December 2019
By nature:		
Wages and salaries	312,881	266,084
Social security premiums	37,998	30,657
Other social benefits	30,889	23,428
Provision for employment termination benefits	17,059	9,845
Provision for vacation pay liability	3,360	2,077
Other	1,877	2,513
	404,064	**334,604**

NOTE 22 - OTHER OPERATING INCOME AND EXPENSES

	1 January - 31 December 2020	1 January - 31 December 2019
Other operating income		
Foreign exchange gains on operating activities	345,173	167,600
Gain on forward transactions	64,170	64,812
Revenue from charge of due date receivables	14,195	23,163
Incentives income	532	1,477
Other	29,844	27,611
Total	**453,914**	**284,663**

	1 January - 31 December 2020	1 January - 31 December 2019
Other operating expenses		
Foreign exchange loss on operating activities	(311,795)	(139,400)
Loss on forward transactions	(55,469)	(29,985)
Provision for doubtful receivables (Note 8)	(14,942)	(3,705)
Expected credit losses on trade receivables	(7,064)	(87)
Other	(3,631)	-
	(392,901)	**(173,177)**

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

NOTE 23 - FINANCIAL INCOME

	1 January - 31 December 2020	1 January - 31 December 2019
Interest income from time deposits	37,526	1,887
Foreign exchange gains on deposits	35,619	13,997
Foreign exchange gains on bank borrowings	22,046	18,786
	95,191	**34,670**

NOTE 24 - FINANCIAL EXPENSES

	1 January - 31 December2020	1 January - 31 December 2019
Interest expense on bank borrowings	(120,318)	(129,217)
Foreign exchange losses on bank borrowings	(59,539)	(44,523)
Foreign exchange losses on deposits	(22,793)	(16,071)
Other	(2,420)	(2,766)
	(205,070)	**(192,577)**

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% (2019 - 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% 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.

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

NOTE 25 - TAX ASSETS AND LIABILITIES (Continued)

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 1 April 2008. Accordingly, income tax-payers can deduct 100% of the expenditures made as of then, which are related to research and development related to new technology and information developments.

As a result of its research and development expenditures made in 2020 amounting to TRY179,123 (2019: TRY115,358). The Group has utilized research and development incentives at 100% deduction without any withholding tax. The Company has an R&D center certificate.

As of 31 December 2020 and 2019, income tax payables are presented net of prepaid taxes in the balance sheet as follows:

	31 December 2020	**31 December 2019**
Income tax payable	685	4,960
Prepaid taxes (-)	(685)	(4,960)
	-	**-**

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

	31 December 2020	**31 December 2019**
Current tax charge	(685)	(4,960)
Deferred tax income / expense reflected in profit or loss		
Charged to profit for the period	(6,233)	10,198
Charged to other comprehensive income	521	1,735
	(6,397)	**6,973**

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

	1 January - 31 December 2020	**1 January - 31 December 2019**
Profit before tax	**625,186**	**346,354**
Income tax charge at effective tax rate 22%	(137,541)	(76,198)
Disallowable expenses	(7,442)	(11,895)
Discounts and exceptions	129,039	72,789
Tax effect on gain on investments accounted for using the equity method	21,623	8,750
Impact of foreign companies subject to different tax rates	(15,030)	8,464
Other	2,433	3,328
Total	**(6,918)**	**5,238**

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

NOTE 25 - TAX ASSETS AND LIABILITIES (Continued)

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 2019 and 2020, and with 20% tax for those which will be realized after 2021 and onwards.

As of 31 December 2020 and 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 December 2020	**31 December 2019**	**31 December 2020**	**31 December 2019**
Incentives from research and development activities (*)	-	314,365	-	69,160
Property, plant and equipment	(42,416)	(27,051)	(5,002)	(1,929)
Intangible assets	(98,580)	(103,649)	(19,716)	(20,730)
Deferred financial expenses	(2,620)	(1,323)	(576)	(291)
Inventories	24,359	10,027	5,311	2,195
Provision for warranty expenses	134,240	77,897	26,527	16,226
Provision for employment termination benefits	63,725	48,460	12,745	9,692
Deferred financial income	16,098	(2,134)	3,542	(470)
Other provisions	77,169	49,968	15,793	10,283
Deferred maintenance income	132,143	145,908	30,495	24,435
Investment incentives (**)	32,787	-	32,787	-
Other	(26,712)	(32,061)	(5,621)	(6,574)
Deferred tax assets, net			**96,285**	**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 December 31, 2020, the no tax advantage (31 December 2019: TRY314,365), which the Company will use in the foreseeable future, has been recognized in the financial statements as deferred tax asset.

(**) The application of Investment Incentive Certificate made by the Group to T.C. Ministry of Industry and Technology, General Directorate of Incentive Implementation and Foreign Capital has been approved and an Investment Incentive Certificate numbered 512845 with a total amount of TRY447,596 thousand was issued for the modernization investment envisaged to be made in the next 4 years.

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

	2020	**2019**
1 January	101,997	90,064
Deferred tax income/loss		
Charged to profit for the period	(6,233)	10,198
Charged to other comprehensive income	521	1,735
31 December	**96,285**	**101,997**

(Amounts expressed in thousand Turkish Lira ("TRY") 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 2020	**31 December 2019**
Net income attributable to shareholders (TRY)	618,268	351,592
Weighted average number of issued shares	24,000,000,000	24,000,000,000
Earnings per share (Piastre)	2.576	1.465

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:

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

Due from related parties	**31 December 2020**	**31 December2019**
Ram Dış Ticaret A.Ş. (1) (*)	264,814	138,537
Al Jasoor Heavy Vehicles Industry LLC (3) (**)	175,866	81,303
Other (1)	3	60
	440,683	**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,
(1) Related parties of the parent company
(3) Joint venture

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

NOTE 27 - RELATED PARTY DISCLOSURES (Continued)

Due to related parties	**31 December 2020**	**31 December2019**
Koç Holding A.Ş. (2)	15,833	11,787
Ram Dış Ticaret A.Ş. (1)	11,661	4,400
Ark İnşaat A.Ş. (1)	9,305	-
Zer Merkezi Hizmetler A.Ş. (1)	8,689	4,914
Koç Sistem Bilgi ve İletişim Hiz. A.Ş. (1)	6,092	3,803
Ford Otosan A.Ş. (1)	1,418	-
Opet Fuchs Madeni Yağ A.Ş. (1)	1,190	479
Otokoç Otomotiv Tic. ve San. A.Ş. (1)	1,135	830
Setur Servis Turistik A.Ş. (1)	874	1,573
Other (1)	2,767	1,945
	58,964	**29,731**

Advances received from related parties	**31 December 2020**	**31 December 2019**
Al Jasoor Heavy Vehicles Industry LLC (3) (*)	336,848	527,169
	336,848	**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 December 2020**	**1 January - 31 December2019**
Al Jasoor Heavy Vehicles Industry LLC (3)	1,204,065	810,709
Ram Dış Ticaret A.Ş. (1) (*)	216,836	253,240
Other (1)	249	173
	1,421,150	**1,064,122**

(*) 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 2020**	**1 January - 31 December 2019**
Ark İnşaat A.Ş. (1)	26,099	-
Koç Sistem Bilgi ve İletişim Hiz. A.Ş. (1)	9,681	2,748
Zer Merkezi Hizmetler A.Ş. (1)	1,036	47
Other (1)	297	308
	37,113	**3,103**

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

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

NOTE 27 - RELATED PARTY DISCLOSURES (Continued)

Inventory purchases	**1 January- 31 December 2020**	**1 January - 31 December 2019**
Zer Merkezi Hizmetler A.Ş. (1)	57,448	42,044
Ram Dış Ticaret A.Ş. (1)	26,540	5,203
Ford Otosan A.Ş. (1)	4,950	-
Opet Fuchs Madeni Yağ A.Ş. (1)	4,867	3,173
Akpa Dayanıklı Tük. Paz. A.Ş. (1)	2,896	2,633
Opet Petrolcülük A.Ş. (1)	2,796	3,493
Koçtaş Yapı Marketleri A.Ş. (1)	1,987	-
Türk Traktör ve Ziraat Makineleri A.Ş.(1)	-	2,196
Other (1)	1,245	574
	102,729	**59,316**

Service purchases	**1 January - 31 December 2020**	**1 January - 31 December2019**
Koç Holding A.Ş. (2) (*)	18,609	5,339
Ram Dış Ticaret A.Ş. (1)	8,872	65,582
Otokoç Otomotiv Tic. ve San. A.Ş. (1)	8,586	6,695
Eltek Elektrik Enerji İth. İhr. Top. Tic. A.Ş. (1)	8,405	-
Koç Sistem Bilgi ve İlt. Hiz. A.Ş. (1)	8,011	9,507
Ram Sigorta Aracılık Hiz. A.Ş. (1) (**)	6,775	6,496
Setur Servis Turistik A.Ş. (1)	4,631	11,644
Ingage Dijital (1)	1,718	1,689
Other (1)	3,695	3,864
	69,302	**110,816**

(*) 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 Communiqé about Concealed Gain Distribution by Transfer Pricing.

(**) It includes paid and accrued premium as of 31 December 2020 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 2020**	**31 December 2019**
Yapı ve Kredi Bankası A.Ş. (1)		
- Time deposits	44,161	4,510
- Deposit deposits	16	2
	44,177	**4,512**

(1) Related parties of the parent company
(2) Shareholder

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

NOTE 27 - RELATED PARTY DISCLOSURES (Continued)

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

Credits	31 December 2020	31 December 2019
Yapı ve Kredi Bankası A.Ş. (1)	141,531	-
	141,531	**-**

For the years ended 31 December 2020 and 2019, financial income and expense with related parties:

	31 December 2020	31 December 2019
Trade receivables and payables foreign exchange gains		
Ram Dış Ticaret A.Ş. (1)	111,995	87,282
Yapı ve Kredi Bankası A.Ş. (1)	12,580	4,018
Other (1)	473	290
	125,048	**91,590**

	1 January- 31 December 2020	1 January - 31 December 2019
Trade receivables and payables foreign exchange expenses		
Ram Dış Ticaret A.Ş. (1)	43,656	32,482
Yapı ve Kredi Bankası (1)	8,829	7,470
Zer Merkezi Hizmetler A.Ş. (1)	968	456
Other (1)	139	14
	53,592	**40,422**

For the years ended 31 December 2020 and 2019, financial income and expense with related parties:

	1 January- 31 December 2020	1 January - 31 December 2019
Interest income		
Yapı ve Kredi Bankası A.Ş. (1)	10,203	269
Total	**10,203**	**269**

(1) Related parties of the parent company

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

NOTE 27 - RELATED PARTY DISCLOSURES (Continued)

	1 January- 31 December 2020	1 January - 31 December 2019
Interest expense		
Yapı ve Kredi Bankası A.Ş. (1)	13,909	16,009
	13,909	**16,009**

(1) Related parties of the parent company

Benefits provided to senior executives

For the year ended 31 December 2020, the total amount of benefits provided to senior management is TRY20,437 thousand (31 December 2019: TRY19,044. TRY1,400 thousand of this amount is related to the payments made due to separation and remaining part consists of short term benefits). The senior executives consist of board members, general manager and deputy general managers.

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 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).

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

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

	Receivables			
31 December 2020	**Trade receivables**	**Other**	**Bank deposit**	**Derivative instruments**
Maximum credit risk exposure as of reporting date (A+B+C+D+E) (1)	**1,319,315**	**3,106**	**517,412**	**-**
- Maximum risk secured by guarantee (2)	244,399	-	-	-
A. Net book value of financial assets neither overdue nor impaired	1,317,902	3,106	517,412	-
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	325	-	-	-
D. Net book value of impaired assets	1,089	-	-	-
- Overdue (gross book value)	62,613	-	-	-
- Impairment (-) (Note 8)	(61,524)	-	-	-
- Net value under guarantee	1,089	-	-	-
- Not overdue (gross book value)	-	-	-	-
- Impairment (-)	-	-	-	-
- Net value under guarantee	-	-	-	-
E. Off- balance sheet items having credit risk	-	-	-	-

	Receivables			
31 December 2019	**Trade receivables**	**Other**	**Bank deposits**	**Derivative instruments**
Maximum credit risk exposure as of reporting date (A+B+C+D+E) (1)	**947,619**	**1,344**	**222,722**	**-**
- Maximum risk secured by guarantee (2)	189,378	-	-	-
A. Net book value of financial assets neither overdue nor impaired	946,222	1,344	222,722	-
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	270	-	-	-
D. Net book value of impaired assets	1,127	-	-	-
- Overdue (gross book value)	47,828	-	-	-
- Impairment (-) (Note 8)	(46,701)	-	-	-
- Net value under guarantee	1,127	-	-	-
- 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.

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

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

As of 31 December 2020 and 2019, maturities of gross trade payables and financial liabilities are as follows:

31 December 2020

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)
Non-derivative financial liabilities						
Bank loans	1,831,041	1,963,894	38,476	937,312	988,106	-
Trade payables	349,519	352,157	351,666	491	-	-

Expected maturities	Book value	Total expected cash outflow	Less than 3 month	Between 3-12 month	Between 1-5 year	Over 5 years
Non-derivative financial liabilities						
Other payables	48,012	23,223	23,223	-	-	-
Other short-term liabilities	27,097	27,097	27,097	-	-	-

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
Derivative financial liabilities (net)	**15,937**	**15,937**	**15,937**	**-**	**-**	**-**
Derivative cash inflows	353,600	353,600	**353,600**	-	-	-
Derivative cash outflows	(337,663)	(337,663)	(337,663)	-	-	-

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

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

31 December 2019

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)
Non-derivative financial liabilities						
Bank loans	777,377	868,717	300,576	134,389	433,752	-
Trade payables	256,191	257,532	257,020	512	-	-

Expected maturities	Book value	Total expected cash outflow	Less than 3 month	Between 3-12 month	Between 1-5 year	Over 5 years
Non-derivative financial liabilities						
Other payables	46,434	18,946	18,946	-	-	-
Other short-term liabilities	5,881	5,881	5,881	-	-	-

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
Derivative financial liabilities (net)	**(1,100)**	**(1,100)**	**(1,100)**	-	-	-
Derivative cash inflows	(305,689)	(305,689)	(305,689)	-	-	-
Derivative cash outflows	(306,789)	(306,789)	(306,789)	-	-	-

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.

(Amounts expressed in thousand Turkish Lira ("TRY") 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 2020		**TRY equivalent (functional currency)**	**USD**	**EUR**	**GBP**
1.	Trade receivables	931,704	70,677	45,832	5
2a.	Monetary financial assets (including cash, bank accounts)	95,319	5,798	5,857	-
2b.	Non-monetary financial assets	-	-	-	-
3.	Other	15	2	-	-
4.	**Current assets (1+2+3)**	**1,027,038**	**76,477**	**51,689**	**5**
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)**	**1,027,038**	**76,477**	**51,689**	**5**
10.	Trade payables	(140,738)	(14,070)	(4,113)	(41)
11.	Financial liabilities	(181,329)	-	(20,130)	-
12a.	Monetary other liabilities	(252,892)	(19,100)	(12,510)	-
12b.	Non-monetary other liabilities	-	-	-	-
13.	**Current liabilities (10+11+12)**	**(574,959)**	**(33,170)**	**(36,753)**	**(41)**
14.	Trade payables	-	-	-	-
15.	Financial liabilities	(180,149)	-	(19,999)	-
16a.	Monetary other liabilities	-	-	-	-
16b.	Non-monetary other liabilities	-	-	-	-
17.	**Non-current liabilities (14+15+16)**	**(180,149)**	**-**	**(19,999)**	**-**
18.	**Total liabilities (13+17)**	**(755,108)**	**(33,170)**	**(56,752)**	**(41)**
	Net balance sheet position (9+18)	**271,930**	**43,307**	**(5,063)**	**(36)**
19.	Net asset/(liability) position of off-balance sheet derivative instruments((19a-19b)	(337,663)	(46,000)	-	-
19a.	Hedged total assets amount	-	-	-	-
19b.	Hedged total liabilities amount	(337,663)	(46,000)	-	-
20.	**Net foreign currency asset/(liability) position (9+18+19)**	**(65,733)**	**(2,693)**	**(5,063)**	**(36)**
21.	**Net foreign currency asset/(liability) position of monetary items (=1+2a+5+6a-10-11-12a-14-15-16a)**	**271,915**	**43,305**	**(5,063)**	**(36)**
22.	Total fair value of financial instruments used for foreign currency hedging	(15,937)	(15,937)	-	-
23.	Export	2,199,309	197,600	91,281	23
24.	Import	1,104,203	68,057	75,577	1,576

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

NOTE 28 - 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	1,945,041	177,305	86,860	2,417
24.	Import	630,817	46,815	56,233	1,110

(Amounts expressed in thousand Turkish Lira ("TRY") 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 2020 and 2019:

		Profit before tax	Profit before tax
31 December 2020		**Appreciation of foreign currency**	**Depreciation of foreign foreign currency**
	In case 10% appreciation of USD against TRY:		
1-	USD net asset/liability	**(1,977)**	**1,977**
2-	Amount hedged for USD risk (-)	-	-
3-	**USD net effect (1+2)**	**(1,977)**	**1,977**
	In case 10% appreciation of EUR against TRY:		
4-	EUR net asset/liability	**(4,561)**	**4,561**
5-	Amount hedged for EUR risk (-)	-	-
6-	**EUR net effect (4+5)**	**(4,561)**	**4,561**
	In case 10% appreciation of GBP against TRY		
7-	GBP net asset/liability	**(36)**	**36**
8-	Amount hedged for GBP risk (-)	-	-
9-	**GBP net effect (7+8)**	**(36)**	**36**
	Total (3+6+9)	**(6,574)**	**6,574**

		Profit before tax	Profit before tax
31 December 2019		**Appreciation of foreign currency**	**Depreciation of foreign foreign currency**
	In case 10% appreciation of USD against TRY:		
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)**
	In case 10% appreciation of EUR against TRY:		
4-	EUR net asset/liability	**(577)**	**577**
5-	Amount hedged for EUR risk (-)	-	-
6-	**EUR net effect (4+5)**	**(577)**	**577**
	In case 10% appreciation of GBP against TRY		
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)**

(Amounts expressed in thousand Turkish Lira ("TRY") 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 2020 and 2019, 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 2020	**31 December 2019**
Total financial liability	1,854,064	801,849
Less: Cash and cash equivalents (Note 4)	(517,422)	(222,722)
Net financial liability	1,336,642	579,127
Total equity	1,007,343	637,646
Financial debt/shareholders' equity factor	**133%**	**91%**

(Amounts expressed in thousand Turkish Lira ("TRY") 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 2020 and 2019:

31 December 2020

Assets	**Level 1**	**Level 2**	**Level 3**	**Total**
Derivative financial instruments	-	15,937	-	15,937
	-	**15,937**	**-**	**15,937**

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.

NOTE 30 - SUBSEQUENT EVENTS

None.

…………………