

(Convenience translation of financial statements and audit report
originally issued in Turkish)

Otokar Otomotiv ve Savunma Sanayi Anonim Őirketi

**Financial statements as of December 31, 2012
together with report of independent auditors**

(Convenience translation of financial statements originally issued in Turkish)

Otokar Otomotiv ve Savunma Sanayi Anonim Şirketi

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(Convenience translation of audit report originally issued in Turkish)

Independent auditor's report

To the Board of Directors of
Otokar Otomotiv ve Savunma Sanayi Anonim Şirketi:

We have audited the accompanying financial statements of Otokar Otomotiv ve Savunma Sanayi Anonim Şirketi (the Company), which comprise the balance sheet as at December 31, 2012, and the comprehensive income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

The Company's management is responsible for the preparation and fair presentation of these financial statements in accordance with Financial Reporting Standards published by the Capital Market Board in Turkey. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with standards on auditing issued by the Capital Market Board in Turkey. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to establish a basis for our audit opinion.

Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Otokar Otomotiv ve Savunma Sanayi Anonim Şirketi as of December 31, 2012 and its financial performance and cash flow for the year then ended in accordance with financial reporting standards issued by Capital Market Board in Turkey.

Additional paragraph for convenience translation to English

As described in Note 2 to the accompanying financial statements, accounting principles and standards applied in the accompanying financial statements (CMB financial accounting standards) are based on International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board except for the adoption of an earlier date for discontinuation of application of IAS 29 (Financial Reporting in Hyperinflationary Economies). As per CMB financial accounting standards application of inflation accounting was ceased effective as of January 1, 2005 whereas per IFRS it was ceased effective January 1, 2006.

Güney Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik Anonim Şirketi
A member firm of Ernst & Young Global Limited

Ferzan Ülgen, SMMM
Partner

February 18, 2013
İstanbul, Turkey

(Convenience translation of financial statements originally issued in Turkish)

Otokar Otomotiv ve Savunma Sanayi Anonim Şirketi

Balance sheet as of December 31, 2012

Prepared in accordance with the Communiqué No: XI-29 “Communiqué on Financial Reporting Standards in Capital Market”

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

		Current period (Audited) December 31, 2012	Prior period (Audited) December 31, 2011
	Notes		
Assets			
Current assets			
Cash and cash equivalents	4	47.906.245	4.470.424
Trade receivables		224.693.650	215.803.465
- Due from related parties	27	24.550.065	19.862.364
- Other trade receivables	8	200.143.585	195.941.101
Other receivables	9	1.715	577
Inventories	10	252.632.987	168.551.835
Derivative financial assets	7	-	9.022.907
Other current assets	17	154.934.363	133.705.191
Total current assets		680.168.960	531.554.399
Non-current assets			
Trade receivables	8	59.397.503	81.455.465
Other receivables	9	47.971	5.903
Estimated earnings in excess of billings on uncompleted contracts	11	61.325.046	43.967.333
Financial investments	5	239.280	239.280
Property, plant and equipment	12	125.112.154	113.300.891
Intangibles	13	100.041.870	71.474.322
Deferred tax asset	25	11.092.336	12.648.352
Total non-current assets		357.256.160	323.091.546
Total assets		1.037.425.120	854.645.945

The accompanying policies and explanatory notes on pages 8 through 64 form an integral part of these financial statements.

(Convenience translation of financial statements originally issued in Turkish)

Otokar Otomotiv ve Savunma Sanayi Anonim Şirketi

Balance sheet as of December 31, 2012

Prepared in accordance with the Communiqué No: XI-29 “Communiqué on Financial Reporting Standards in Capital Market”

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

		Current period	Prior period
		(Audited)	(Audited)
		December 31,	December 31,
	Notes	2012	2011
Liabilities			
Current liabilities			
Financial liabilities	6	50.093.249	96.867.900
Derivative financial liabilities	7	2.193.011	-
Trade payables	8	85.026.598	78.495.682
- Due to related parties	27	8.988.915	5.086.142
- Other trade payables	8	76.037.683	73.409.540
Other payables	9	155.530.081	154.929.567
Government incentives and grants	14	670.521	621.992
Current tax liabilities	25	-	3.089.785
Debt provisions	15	228.933.010	200.771.540
Other current liabilities	17	11.009.338	8.233.975
Total current liabilities		533.455.808	543.010.441
Non-current liabilities			
Financial liabilities	6	236.099.752	82.471.971
Provisions	15	4.443.939	5.687.802
Government incentives and grants	14	2.332.562	1.017.366
Employee benefits	16	13.716.119	9.110.483
Other non-current liabilities	17	5.644.080	-
Total non-current liabilities		262.236.452	98.287.622
Shareholders' equity			
Parent Company's equity			
Paid-in share capital	18	24.000.000	24.000.000
Inflation adjustment on equity items	18	52.743.030	52.743.030
Restricted reserves	18	22.798.147	18.118.147
Retained earnings	18	65.806.705	63.640.101
Net income for the year	18	76.384.978	54.846.604
Total shareholders' equity		241.732.860	213.347.882
Total liabilities		1.037.425.120	854.645.945

The accompanying policies and explanatory notes on pages 8 through 64 form an integral part of these financial statements.

(Convenience translation of financial statements originally issued in Turkish)

Otokar Otomotiv ve Savunma Sanayi Anonim Şirketi

Comprehensive income statement for the year ended December 31, 2012

Prepared in accordance with the Communiqué No: XI-29 “Communiqué on Financial Reporting Standards in Capital Market”

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

		Current Period	Prior Period
		Audited	Audited
	Notes	January 1 – December 31, 2012	January 1 – December 31, 2011
Net sales	19	1.004.492.232	890.525.189
Cost of sales (-)	19	(782.463.926)	(694.820.626)
Gross profit		222.028.306	195.704.563
Marketing, sales and distribution expenses (-)	20	(78.654.006)	(83.213.660)
General administrative expense (-)	20	(33.678.006)	(25.161.744)
Research and development expenses (-)	20	(18.030.947)	(12.355.838)
Other operating income	22	4.804.452	4.216.993
Other operating expense (-)	22	(2.888.081)	(8.348.464)
Operating profit		93.581.718	70.841.850
Financial income	23	125.265.256	88.311.941
Financial expense (-)	24	(137.029.033)	(97.377.450)
Income before tax		81.817.941	61.776.341
Tax income/expense			
- Tax expense for the year (-)	25	(3.876.947)	(11.633.639)
- Deferred tax income/ expense	25	(1.556.016)	4.703.902
Net income		76.384.978	54.846.604
Other comprehensive income		-	-
Total comprehensive income		76.384.978	54.846.604
Earnings per share	26	0,00318	0,00229

The accompanying policies and explanatory notes on pages 8 through 64 form an integral part of these financial statements.

(Convenience translation of financial statements originally issued in Turkish)

Otokar Otomotiv ve Savunma Sanayi Anonim Şirketi

Statement of changes in equity for the year ended December 31, 2012

Prepared in accordance with the Communiqué No: XI-29 “Communiqué on Financial Reporting Standards in Capital Market”

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

	Paid-in share capital	Inflation adjustment on equity items	Restricted reserves	Retained earnings	Net income for the year	Total shareholders' equity
January 1, 2011	24.000.000	52.743.030	16.738.147	59.241.787	20.778.314	173.501.278
Transfer to retained earnings	-	-	-	20.778.314	(20.778.314)	-
Transfer to restricted reserves	-	-	1.380.000	(1.380.000)	-	-
Dividends paid (Note 18)	-	-	-	(15.000.000)	-	(15.000.000)
Total comprehensive income	-	-	-	-	54.846.604	54.846.604
December 31, 2011	24.000.000	52.743.030	18.118.147	63.640.101	54.846.604	213.347.882
Transfer to retained earnings	-	-	-	54.846.604	(54.846.604)	-
Transfer to restricted reserves	-	-	4.680.000	(4.680.000)	-	-
Dividends paid (Note 18)	-	-	-	(48.000.000)	-	(48.000.000)
Total comprehensive income	-	-	-	-	76.384.978	76.384.978
December 31, 2012	24.000.000	52.743.030	22.798.147	65.806.705	76.384.978	241.732.860

The accompanying policies and explanatory notes on pages 8 through 64 form an integral part of these financial statements.

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Otokar Otomotiv ve Savunma Sanayi Anonim Şirketi

Cash flow statement for the year ended December 31, 2012

Prepared in accordance with the Communiqué No: XI-29 “Communiqué on Financial Reporting Standards in Capital Market”

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

		Current period (Audited)	Prior period (Audited)
		January 1 – December 31, 2012	January 1 – December 31, 2011
	Notes		
Cash flows from operating activities			
Income before provision for taxes		81.817.941	61.776.341
Adjustments to reconcile income before taxes to net cash flows from operating activities:			
Depreciation and amortization	12, 13	30.258.066	21.548.249
Provision for retirement pay liability	21	6.294.748	3.149.257
Provision for impairment for inventories	10, 21	40.236	1.575.452
Warranty provision expenses	15, 21	17.345.018	28.823.464
Gain on sale of property, plant and equipment	22	(15.168)	(1.020.382)
Interest expense	24	26.195.253	16.075.841
Interest income	23	(1.031.089)	(1.558.703)
Provision for doubtful receivables	8, 22	2.736.485	7.944.800
Forward transactions, net		992.842	(11.717.572)
Operating profit before changes in operating asset and liabilities		164.634.332	126.596.747
Trade and other receivables		10.388.085	(127.528.519)
Estimated earnings in excess of billings on uncompleted contracts		(17.357.712)	(21.320.789)
Inventories		(84.121.388)	(69.562.117)
Other current assets		(22.126.249)	(73.309.884)
Trade payables		6.530.916	30.934.122
Other liabilities, provisions and other current liabilities		42.281.231	84.981.281
Income taxes paid		(10.116.111)	(13.125.373)
Warranties paid	15	(18.278.508)	(16.566.412)
Employee termination benefits paid	16	(1.689.112)	(1.127.342)
Net cash (used in)/provided by operating activities		70.145.484	(80.028.286)
Cash flows from investing activities			
Cash paid for acquisition of property, plant and equipment	12	(25.298.282)	(24.462.080)
Cash paid for acquisition of intangible assets	13	(46.415.541)	(28.559.974)
Proceeds from sale of property, plant and equipment		1.092.115	2.377.553
Capital payment for financial investments	5	-	(239.280)
Interest received		1.031.089	1.558.703
Net cash used in investing activities		(69.590.619)	(49.325.078)
Cash flows from financing activities			
Proceeds from bank borrowings		422.112.861	355.485.394
Repayments of bank borrowings		(324.424.422)	(314.943.429)
Interest payments		(17.030.560)	(6.160.392)
Dividends paid		(48.000.000)	(15.000.000)
Realized gain from forward transactions, net		10.223.077	2.877.473
Net cash provided by financing activities		42.880.956	22.259.046
Net (decrease)/increase in cash and cash equivalents		43.435.821	(107.094.318)
Cash and cash equivalents at the beginning of the year	4	4.470.424	111.564.742
Cash and cash equivalents at the end of the year	4	47.906.245	4.470.424

The accompanying policies and explanatory notes on pages 8 through 64 form an integral part of these financial statements.

(Convenience translation of financial statements originally issued in Turkish)

Otokar Otomotiv ve Savunma Sanayi Anonim Şirketi

Notes to the financial statements

As of December 31, 2012

Prepared in accordance with the Communiqué No: XI-29 “Communiqué on Financial Reporting Standards in Capital Market”

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

1. 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, armoured vehicles, minibuses, midibuses and autobuses, trailers, semi-trailers and cross-country comprises the majority of its production. The number of the personnel in the Company is 2.281 (December 31, 2011 - 1.519).

The registered addresses of the Company are as follows:

Headquarters:

Aydınevler Mahallesi, Dumlupınar Cad. No:24 A Bl.
81580 Küçükyalı / İstanbul

Factory:

Atatürk Cad. No: 6
54580 Arifiye / Sakarya

The Company has a subsidiary named "Otokar Europe SAS" with a capital of Euro 100.000, established on August 18, 2011 for the purpose of organizing export activities and increasing export sales. Since “Otokar Europe SAS” operations does not materially affect the financial statements, it has not been subject to consolidation and has been presented at historical cost value (Note 5).

Financial statements have been authorized for issue by the Board of Directors of the Company on February 18, 2013 and signed by Ahmet Serdar Görgüç and Hüseyin Odabaş on behalf of Board of Directors of the Company. Although there is no such intention, the Company Management and certain regulatory bodies have the power to amend the statutory financial statements after issue.

The Company 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 Company. The Company is registered to the Capital Market Board (“CMB”) and its shares are listed on the Istanbul Stock Exchange (“ISE”) since 1996. As of December 31, 2012, the shares listed on the ISE are 29.91% of the total shares. As of December 31, 2012, the principal shareholders and their respective shareholding percentages are as follows:

	%
Koç Holding A.Ş.	44,68
Ünver Holding A.Ş.	24,81
Other	30,51
	100,00

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

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

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Otokar Otomotiv ve Savunma Sanayi Anonim Şirketi

Notes to the financial statements (continued)

As of December 31, 2012

Prepared in accordance with the Communiqué No: XI-29 “Communiqué on Financial Reporting Standards in Capital Market”

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

2. Basis of presentation

2.1 Basis of presentation

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

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

The financial statements are prepared in accordance with International Accounting / Financial Reporting Standards (IAS/IFRS) as prescribed in the CMB communiqué No:XI-29 "Communiqué on Financial Reporting Standards in Capital Markets" (Communiqué) which is published in the official gazette and become effective as of April 9, 2008.

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

Functional and presentation currency

Functional and presentation currency of the Company is TL.

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

2.2 Comparative information and restatement of prior period financial statements

In order to provide chance to identify trend of financial performance and financial position, financial statements are prepared comparative to the prior period. When presentation of current year financial statements is revised for more accurate presentation, prior year financial statements are reclassified accordingly, to be comparative.

- a) In order to be consistent with current year financial statements, warranty accrual amounting to TL 18.768.929 presented as current liabilities – provisions in the balance sheet as of December 31, 2011 has been separated as TL 13.081.127- current liability and TL 5.687.802 – non-current liability.
- b) The Company has reclassified “Estimated earnings in excess of billings on uncompleted contracts amounting to TL 43.967.333 from current assets to non-current assets in its 2011 financial statements in order to be in line with the presentation in 2012 financial statements.

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Otokar Otomotiv ve Savunma Sanayi Anonim Şirketi

Notes to the financial statements (continued)

As of December 31, 2012

Prepared in accordance with the Communiqué No: XI-29 “Communiqué on Financial Reporting Standards in Capital Market”

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

2. Basis of presentation (continued)

2.3 Accounting errors and changes in accounting estimates

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

Changes in estimations are applied in the current period if related to one period. They are applied forward, in the period the change occurred and in the future when they are related with the future periods.

2.4 Changes in accounting policies

The Company 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.

New standards, amendments and interpretations

The accounting policies adopted in preparation of the financial statements as at December 31, 2012 are consistent with those of the previous financial year, except for the adoption of new and amended IFRS and IFRIC interpretations effective as of January 1, 2012. The effects of these standards and interpretations on the Company’s financial position and performance have been disclosed in the related paragraphs.

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

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

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

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

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

(Convenience translation of financial statements originally issued in Turkish)

Otokar Otomotiv ve Savunma Sanayi Anonim Şirketi

Notes to the financial statements (continued)

As of December 31, 2012

Prepared in accordance with the Communiqué No: XI-29 “Communiqué on Financial Reporting Standards in Capital Market”

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

2. Basis of preparation financial statements (continued)

Standards issued but not yet effective and not early adopted

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

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

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

IAS 19 Employee Benefits (Amended)

Amended standard is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted. With very few exceptions retrospective application is required. Numerous changes or clarifications are made under the amended standard. Among these numerous amendments, the most important changes are removing the corridor mechanism and making the distinction between short-term and other long-term employee benefits based on expected timing of settlement rather than employee entitlement. The most important change in the context of the amendment will be the reclassification of actuarial gain/losses from income statement to other comprehensive income statement.

IAS 27 Separate Financial Statements (Amended)

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

IAS 28 Investments in Associates and Joint Ventures (Amended)

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

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Otokar Otomotiv ve Savunma Sanayi Anonim Şirketi

Notes to the financial statements (continued)

As of December 31, 2012

Prepared in accordance with the Communiqué No: XI-29 “Communiqué on Financial Reporting Standards in Capital Market”

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

2. Basis of preparation financial statements (continued)

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

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

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

New disclosures would provide users of financial statements with information that is useful in (a) evaluating the effect or potential effect of netting arrangements on an entity’s financial position and (b) analysing and comparing financial statements prepared in accordance with IFRSs and other generally accepted accounting standards. The amendments are to be retrospectively applied for annual periods beginning on or after January 1, 2013 and interim periods within those annual periods. The amendment affects disclosures only and will have no impact on the financial position or performance of the Company.

IFRS 9 Financial Instruments – Classification and measurement

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

IFRS 10 Consolidated Financial Statements

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

IFRS 10 replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. A new definition of control is introduced, which is used to determine which entities are consolidated. This is a principle based standard and require preparers of financial statements to exercise significant judgment. The Company does not expect that this standard will have a significant impact on the financial position or performance of the Company.

(Convenience translation of financial statements originally issued in Turkish)

Otokar Otomotiv ve Savunma Sanayi Anonim Şirketi

Notes to the financial statements (continued)

As of December 31, 2012

Prepared in accordance with the Communiqué No: XI-29 “Communiqué on Financial Reporting Standards in Capital Market”

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

2. Basis of preparation financial statements (continued)

IFRS 11 Joint Arrangements

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

The standard describes the accounting for joint ventures and joint operations with joint control. Among other changes introduced, under the new standard, proportionate consolidation is not permitted for joint ventures. The Company does not expect that this standard will have an impact on the financial position or performance of the Company.

IFRS 12 Disclosure of Interests in Other Entities

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

IFRS 12 includes all of the disclosures that were previously in IAS 27 Consolidated and Separate Financial Statements related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 Interests in Joint Ventures and IAS 28 Investment in Associates. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. Under the new standard the Company will provide more comprehensive disclosures for interests in other entities.

IFRS 13 Fair Value Measurement

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

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

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

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Otokar Otomotiv ve Savunma Sanayi Anonim Şirketi

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2. Basis of preparation financial statements (continued)

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

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

Improvements to IFRSs

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

IAS 1 Financial Statement Presentation:

Clarifies the difference between voluntary additional comparative information and the minimum required comparative information.

IAS 16 Property, Plant and Equipment:

Clarifies that major spare parts and servicing equipment that meet the definition of property, plant and equipment are not inventory.

IAS 32 Financial Instruments: Presentation:

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

IAS 34 Interim Financial Reporting:

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

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2. Basis of preparation financial statements (continued)

IFRS 10 Consolidated Financial Statements (Amendment)

IFRS 10 is amended to provide an exception to the consolidation requirement for entities that meet the definition of an investment entity. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss in accordance with IFRS 9 Financial Instruments. The amendment applies for annual periods beginning on or after January 1, 2014 with earlier application permitted. The amendment has not yet been endorsed by the EU. The amendment is not applicable for the Company and will not have any impact on the financial position or performance of the Company.

2. 2.5 Significant accounting judgments and estimates

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

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

- a) In the context of IAS 11 “Construction contracts” assumptions are made related to total cost of and profitability of projects.
- b) Deferred tax asset is recognised to the extent that taxable profit will be available against which the deductible temporary differences can be utilized. When taxable profit is probable, deferred tax asset is recognised for all deductible temporary differences. For the year ended December 31, 2012, since the Management believed the -indicators demonstrating that the Company will have taxable profits in the foreseeable future- are reliable, deferred tax asset has been recognized.
- c) Reserve for retirement pay is determined by using actuarial assumptions (discount rates, future salary increases and employee turnover rates).
- d) The Company determines warranty provision by considering the past warranty expenses and remaining warranty period per vehicle.
- e) Provision for doubtful receivables is an estimated amount that management believes to reflect for possible future losses on existing receivables that have collection risk due to current economic conditions. During the impairment test for the receivables, the debtors, other than related parties, are assessed with their prior year performances, their credit risk in the current market, and their individual performances after the balance sheet date up to the issuing date of the financial statements and furthermore, the renegotiation conditions with these debtors are considered.
- f) Inventory price lists after discount is used to calculate impairment for inventories. In such cases that sales price cannot be predicted, inventory aging and physical status are considered together with technical personnel’s opinion. If anticipated expected net realizable value is less than the cost, impairment for the difference is provided for.

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Otokar Otomotiv ve Savunma Sanayi Anonim Şirketi

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2. Basis of presentation (continued)

- g) When allocating provision for legal risks, the probabilities of failure in the cases and the possible liabilities to be arisen in the case of failure are evaluated by the management through being counseled by legal advisors of the Company. The management determines the amount of the provisions based on their best estimates.

2.6 Summary of significant accounting policies

Revenue recognition

Accruals basis accounting is applied for the recognition of revenue and expenses. The accrual concept requires that revenue, income and profits should be matched with costs, expenses and losses belonging to the same period.

Revenue includes invoiced or accrued values of sale of goods and rendering services. Revenue from the sale of goods is recognised on an accrual basis over fair value when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on delivery of the goods. Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be measured reliably. Significant risk and rewards related to sales passes to the buyer on delivery of the goods or transfer of ownership to buyer. Net sales are invoiced amounts of delivered goods excluding sales returns.

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

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

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

Construction contract activities

Contract revenue and costs are recognized as revenue and expenses, respectively, when the outcome of a construction contract can be estimated reliably. The projects are “fixed cost” and the project revenues are reflected according to the percentage of completion method. The percentage of completion method is used to recognize revenue on a contract as work progresses by matching contract revenue with contract costs incurred based on the proportion of work completed which is determined by the ratio of actual costs incurred through to the end of each reporting period divided by the total estimated contract costs of the project.

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2. Basis of presentation (continued)

Contract costs include all direct material and labor costs and those indirect costs related to contract performance, such as indirect labor, supplies, tools, repairs and depreciation costs. Selling, general and administrative expenses are charged to the income statement as incurred. Provisions for estimated losses on uncompleted contracts are made in full, in the period in which such losses are determined. Changes in job performance, job conditions and estimated profitability, including those arising from contract penalty provisions and final contract settlements may result in revisions to costs and income and are recognized in the period in which the revisions are determined.

Costs and estimated earnings in excess of billings on uncompleted contracts represent revenues recognized in excess of amounts billed. Billings in excess of costs and estimated earnings on uncompleted contracts represent billings in excess of revenues recognized (Note 11).

Related parties

Parties are considered related to the Company if;

- (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) The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
- (i) 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).
 - (ii) Both entities are joint ventures of the same third party.
 - (iii) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
 - (iii) 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.
 - (iv) The entity is controlled or jointly controlled by a person identified in (a).
 - (v) A person identified in (a) (i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Inventories

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

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

Finished goods and work-in progress -cost of direct materials and labor and a proportion of manufacturing overheads is 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).

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2. Basis of presentation (continued)

Property, plant and equipment

All property and equipment is initially recorded at cost and then are carried at restated cost until December 31, 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	30 years
Machinery and equipment	3-15 years
Vehicles	9 years
Furniture and fixtures	5-15 years
Leasehold improvements	5 years

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

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

Intangible assets

Intangible assets mainly comprise software rights, information systems, project costs related to new product development and computer software. Intangible assets are initially stated at cost and are restated until December 31, 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.

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2. Basis of presentation (continued)

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:

- (a) existence of the technical feasibility of completing the intangible asset so that it will be available for use or sale.
- (b) existence of the intention to complete the intangible asset and use or sell it
- (c) existence of the ability to use or sell the intangible asset.
- (d) reliability of how the intangible asset will generate probable future economic benefits
- (e) the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset.
- (f) 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.

Income taxes

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

The current income tax charge is calculated in accordance with the tax laws enacted or substantively enacted at the balance sheet date in Turkey. Under the Turkish Tax Code, companies having head office or place of business in Turkey are subject to corporate tax.

A provisional tax accrual is recognized in the financial statements for current taxation. Current tax charge is calculated over operational results considering the effects of disallowable and exemptions.

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2. Basis of presentation (continued)

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

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

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

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

Deferred tax assets are presented net of deferred tax liabilities in the balance sheet.

Long-term employee benefits

(a) Defined benefit plans:

Retirement pay liability

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 Unit Credit 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 income statement.

(b) Defined contribution plans:

The Company pays contributions to the Social Security Institution on a mandatory basis. The Company has no further payment obligations once the contributions have been paid. The contributions are recognized as an employee benefit expense when they are due.

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.

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2. Basis of presentation (continued)

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 and assets are defined to be arising from past events to be caused from inflows or outflows of resources including economic benefits on amortization.

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.

Operating 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.

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.

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2. Basis of presentation (continued)

Financial instruments

The Company's financial assets comprise cash and cash equivalents, receivables from related parties, financial investments and other receivables. Financial liabilities comprise financial loans, trade payables, due to related parties and other payables.

Financial assets with fixed or determinable payments and fixed maturities are classified as held to maturity when the Company has the positive intention and ability to hold to maturity. Financial assets which are ready for sale when considered the liquidity needs or the possible changes in interest rates, are classified as held for trading. Others except these are classified as ready for sale financial assets.

Available for sale investments

Investments intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or changes in interest rates are classified as available-for-sale. These are included in non-current assets unless management has the expressed intention of holding the investments for less than 12 months from the balance sheet date or unless they will need to be sold to raise operating capital, in which case they are included in current assets. Management reviews the classification of these financial assets on a regular basis.

The fair value of financial assets must be carried at cost less impairment, when the fair value of financial assets cannot be measured reliably.

Available for sale assets are carried at fair value after initial recognition. The fair value of available for sale financial assets is determined by the market price at the balance sheet date when available. If no market price is available, fair value is estimated based on valuation process by using discounted cash flow, similar purchases and observable market parameters.

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.

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 Company 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.

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2. Basis of presentation (continued)

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 Company 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 Company 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.

Trade payables

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

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. Borrowing costs arising from bank loans are charged to the comprehensive income statement when they are incurred unless they are incurred for acquisition of a qualifying asset.

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 comprehensive income statement.

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2. Basis of presentation (continued)

Impairments in financial assets

Financial asset 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.

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.

Recognition and derecognition of financial assets and liabilities

The Company recognizes a financial asset or financial liability in its balance sheet when only when it becomes a party to the contractual provisions of the instrument. The Company 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 or cancelled or expires.

All regular way financial asset purchase and sales are recognized at the date of the transaction, the date the Company 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.

Foreign currency transactions

Monetary balance sheet items denominated in foreign currencies have been translated 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.

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2. Basis of presentation (continued)

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

Impairment of non-financial assets

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

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

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.

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2. Basis of preparation financial statements (continued)

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.

All other borrowing costs are expensed in the period they occur. The Company did not capitalize any borrowing cost in the current year.

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.

3. Segment reporting

Financial statements of the Otokar Europe SAS have not been consolidated to financial statements of the Otokar Otomotiv ve Savunma Sanayi Anonim Şirketi since the operations of the Otokar Europe SAS company have not had significant effect on the financial statements of the Otokar Otomotiv ve Savunma Sanayi Anonim Şirketi as specified in Note 5 and has been presented at historical cost. As a consequence of this, the Company follows its operations in one segment, does not have different geographical and operational segments and the Company does not prepare segment reporting.

4. Cash and cash equivalents

	December 31, 2012	December 31, 2011
Cash at banks		
- demand deposits	4.217.628	2.897.205
- time deposits	39.615.000	-
Cheques and notes received	4.026.574	1.526.619
Other	47.043	46.600
	47.906.245	4.470.424

As of December 31, 2012, effective interest rate of time deposits which are originally amounting to TL 39.615.000 is annually 8% and the maturity is 1 day.

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

As of December 31, 2012, the Company has restricted bank deposit amounting to TL 1.362 (December 31, 2011 - TL 1.141).

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5. Financial investments

The Company has a subsidiary named "Otokar Europe SAS" with a capital of Euro 100.000, established on August 18, 2011 for the purpose of organizing export activities and increasing export sales. Since "Otokar Europe SAS" operations does not materially affect the financial statements, it has not been subject to consolidation and has been presented at historical cost value.

The paid-in capital of Otokar Europe SAS is TL 239.280.

6. Financial liabilities

			December 31, 2012
	Maturities	Interest rate (%)	TL
Short-term bank borrowings (***)			
Denominated in TL	January 2, 2013 – January 3, 2013	-	2.028.308
Payments of the long-term bank borrowings and interest accruals			
Denominated in TL	January 7, 2013 – June 14, 2013	8,72 – 11,81	48.064.941
Total			50.093.249

			December 31, 2012
	Maturities	Interest rate (%)	TL
Long-term bank borrowings (*)(**)			
Denominated in TL	March 26, 2014 – March 14, 2016	8,72 – 11,81	236.099.752
Total			236.099.752

(*) Weighted average maturity days of long-term borrowings are 828.

(**) Bearing fixed interest rate

(***) Interest free loans used for SGK payments.

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

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6. Financial liabilities (continued)

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

(*) Principle amount of long-term borrowings will be repaid on maturity with all accrued interest. Weighted average maturity days of long-term borrowings are 499.

(**) Bearing fixed interest rate

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

7. Derivative financial instruments

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

	Contract amount	Contract maturity	Fair values Liabilities
December 31, 2012:			
Forward transactions	213.421.206	January 31, 2013 – February 28, 2013	(2.193.011)
Short-term derivative financial instruments	213.421.206		(2.193.011)
Total derivative financial instruments	213.421.206		(2.193.011)
December 31, 2011:			
Forward transactions	208.525.910	January 11, 2012 – March 30, 2012	9.022.907
Short-term derivative financial instruments	208.525.910		9.022.907
Total derivative financial instruments	208.525.910		9.022.907

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8. Trade receivables and payables

Trade receivables

	December 31, 2012	December 31, 2011
Trade receivables, net	100.905.085	67.250.300
Notes receivables, net	118.985.948	147.028.337
	219.891.033	214.278.637
Less: provision for doubtful receivables	(19.747.448)	(18.337.536)
Other short-term trade receivables	200.143.585	195.941.101
Trade receivables from related parties (Note 27)	24.550.065	19.862.364
Short-term trade receivables	224.693.650	215.803.465
Long-term trade receivables, net	13.255.966	-
Long-term notes receivable, net	46.141.537	81.455.465
Long-term trade receivables	59.397.503	81.455.465

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

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8. Trade receivables and payables (continued)

Guarantees received for trade receivables

Receivables of the Company mainly relate to the sales to the minibus and bus dealers, trailer sales and military vehicle sales. As of December 31, 2012, the total trade receivable from dealers amounting to TL 32.065.161 (December 31, 2011 - TL 52.916.990), after provision reserved for doubtful receivables, has been secured by mortgages and guarantees at the amount of TL 32.065.161 (December 31, 2011 - TL 41.753.015). The Company manages its credit risk for the remaining receivables through policies and procedures as explained in the Credit Risk section of Note 28.

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

December 31, 2012	Trade receivables
1- 30 day past due	-
1- 3 month past due	63.597
3- 12 month past due	-
1- 5 year past due(*)	1.229.836
Over 5 year past due	-
Total	1.293.433
Amount secured with guarantee (1)	1.253.810

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

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

(1) Pledges on trailers.

The movement of the provision for doubtful receivables for the year ended December 31, 2012 and December 31, 2011 are as follows:

	December,31 2012	December,31 2011
January 1	18.337.536	10.540.246
Collections (Note 22)	(1.326.573)	(147.510)
Additional provision (Note 22)	2.736.485	7.944.800
As of December 31	19.747.448	18.337.536

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8. Trade receivables and payables (continued)

Trade payables

	December,31 2012	December,31 2011
Trade payables, net	75.851.383	73.243.490
Notes payables, net	186.300	166.050
Short-term trade payables	76.037.683	73.409.540
Trade payables to related parties (Note 27)	8.988.915	5.086.142
Short-term trade payables	85.026.598	78.495.682

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

9. Other receivables and payables

Other short-term receivables

	December 31, 2012	December,31 2011
Due from personnel	1.715	577
Total	1.715	577

Other long-term receivables

	December 31, 2012	December,31 2011
Deposits and guarantees given	47.971	5.903
Total	47.971	5.903

Other short-term payables

	December 31, 2012	December,31 2011
Advances received	145.260.185	148.349.292
Due to personnel	8.828.874	6.545.066
Other miscellaneous payables	1.441.022	35.209
Total	155.530.081	154.929.567

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10. Inventories

	December 31, 2012	December,31 2011
Raw material	103.285.960	47.815.012
Work-in-process	22.257.093	9.056.158
Finished goods	49.091.664	61.757.207
Merchandise	30.152.329	24.079.893
Goods in transit	49.461.629	27.419.017
(-) Impairment for inventories (*)	(1.615.688)	(1.575.452)
Total	252.632.987	168.551.835

(*) TL 1.394.900 of impairment is related to finished goods (December 31,2011 - 1.148.244) and TL 220.788 is related to merchandises (December 31,2011 - 427.208). The impairment has been accounted under cost of sales account.

The movements of impairment for inventories in 2012 are as follows:

	December 31, 2012	December,31 2011
January 1	(1.575.452)	-
Period charge (Note 21)	(40.236)	(1.575.452)
December 31, 2012	(1.615.688)	(1.575.452)

11. Costs and billings on uncompleted contracts and other payables

Receivable from Costs and estimated earnings in excess of billings on uncompleted contracts is amounting to TL 61.325.046 as of December 31, 2012 (December 31, 2011 – TL 43.967.333) after netting with short term advance taken.

As of December 31, 2012, the short term advances taken by the Company related with ongoing projects which amounts to TL 93.823.684 was included in other payables in the financial statements (December 31, 2011 – TL 61.420.658). Rest of the amount TL 51.436.501 which is included in other payables is composed of other advance taken from customer (December 31, 2011 – TL 86.928.634) and other payables as amounting to TL 10.269.896 (December 31, 2011 – TL 6.580.275).

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As of December 31, 2012

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12. Property, plant and equipment

For the year ended December 31, 2012, the movement of property, plant and equipment and the accumulated depreciation is as follows:

	January 1, 2012	Additions	Disposals	Transfers	December 31, 2012
Cost:					
Land	36.970.746	486.000	-	-	37.456.746
Land improvements	6.315.934	27.687	-	3.724.607	10.068.228
Buildings	57.228.511	15.000	-	2.355.385	59.598.896
Machinery, equipment and installations	88.778.684	3.028.562	(230.227)	17.212.010	108.789.029
Motor vehicles	6.936.226	3.085.172	(1.351.065)	33.498	8.703.831
Furniture and fixtures	23.123.058	3.615.445	(110.893)	1.163.438	27.791.048
Leasehold improvements	1.448.602	-	-	288.744	1.737.346
Construction in progress	10.604.273	15.040.416	-	(24.777.682)	867.007
	231.406.034	25.298.282	(1.692.185)	-	255.012.131
Accumulated depreciation:					
Land improvements	2.527.139	642.828	-	-	3.169.967
Buildings	23.662.910	2.666.600	-	-	26.329.510
Machinery, equipment and installations	72.176.019	6.820.784	(228.968)	-	78.767.835
Motor vehicles	3.601.725	500.478	(303.581)	-	3.798.622
Furniture and fixtures	14.891.289	1.733.849	(82.690)	-	16.542.448
Leasehold improvements	1.246.061	45.534	-	-	1.291.595
	118.105.143	12.410.073	(615.239)	-	129.899.977
Net book value	113.300.891				125.112.154

For the year ended December 31, 2011, the movement of property, plant and equipment and the accumulated depreciation is as follows:

	January 1, 2011	Additions	Disposals	Transfers	December 31, 2011
Cost:					
Land	36.396.386	574.360	-	-	36.970.746
Land improvements	5.481.336	530.766	(19.185)	323.017	6.315.934
Buildings	53.219.003	65.994	-	3.943.514	57.228.511
Machinery, equipment and installations	92.434.926	2.731.613	(6.800.817)	412.962	88.778.684
Motor vehicles	6.698.795	1.263.150	(1.089.147)	63.428	6.936.226
Furniture and fixtures	18.759.148	3.743.570	(255.966)	876.306	23.123.058
Leasehold improvements	1.448.602	-	-	-	1.448.602
Construction in progress	670.873	15.552.627	-	(5.619.227)	10.604.273
	215.109.069	24.462.080	(8.165.115)	-	231.406.034
Accumulated depreciation:					
Land improvements	2.330.079	207.984	(10.924)	-	2.527.139
Buildings	21.113.641	2.549.269	-	-	23.662.910
Machinery, equipment and installations	73.826.184	4.744.094	(6.394.259)	-	72.176.019
Motor vehicles	3.370.231	420.894	(189.400)	-	3.601.725
Furniture and fixtures	14.123.773	980.877	(213.361)	-	14.891.289
Leasehold improvements	1.207.532	38.529	-	-	1.246.061
	115.971.440	8.941.647	(6.807.944)	-	118.105.143
Net book value	99.137.629				113.300.891

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12. Property, plant and equipment (continued)

For the years ended December 31, 2012 and 2011, the allocation of depreciation and amortization expenses of property, plant and equipment and intangibles has been as follows:

	December 31, 2012	December,31 2011
Research and development expenses	16.406.313	11.369.270
Cost of goods sold	5.505.228	5.548.448
Costs related to uncompleted contracts	4.793.921	1.315.993
General administrative expenses	1.168.816	1.066.397
Development projects in process	1.165.354	1.135.766
Depreciation on outstanding inventories	616.467	579.519
Selling and marketing expenses	601.967	532.856
	30.258.066	21.548.249

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

	December 31, 2012	December,31 2011
Machinery, equipment and installations	61.596.818	45.831.577
Motor vehicles	2.556.760	2.585.412
Furniture and fixtures	11.966.130	11.912.057
Leasehold improvements	1.120.006	1.094.646
	77.239.714	61.423.692

13. Intangible assets

For the year ended December 31, 2012, the movement of intangibles and accumulated amortization is as follows:

	January 1, 2012	Additions	Transfers	December 31, 2012
Cost:				
Other intangible assets	7.958.897	2.222.167	-	10.181.064
Development costs	80.600.486	-	33.599.779	114.200.265
Development projects in process	9.081.096	44.193.374	(33.599.779)	19.674.691
	97.640.479	46.415.541	-	144.056.020
Accumulated amortization:				
Other intangible assets	5.423.475	1.459.324	-	6.882.799
Development costs	20.742.682	16.388.669	-	37.131.351
	26.166.157	17.847.993		44.014.150
Net book value	71.474.322			100.041.870

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13. Intangible assets (continued)

For the year ended December 31, 2011, the movement of intangibles and accumulated amortization is as follows:

	January 1, 2011	Additions	Transfers	December 31, 2011
Cost:				
Other intangible assets	6.768.208	1.190.689	-	7.958.897
Development costs	55.012.467	-	25.588.019	80.600.486
Development projects in process	7.299.830	27.369.285	(25.588.019)	9.081.096
	69.080.505	28.559.974	-	97.640.479
Accumulated amortization:				
Other intangible assets	4.186.143	1.237.332	-	5.423.475
Development costs	9.373.412	11.369.270	-	20.742.682
	13.559.555	12.606.602		26.166.157
Net book value:	55.520.950			71.474.322

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

	December 31, 2012	December,31 2011
Other intangible assets	3.839.842	2.793.969
R&D expenses (amortized)	2.550.970	-
	6.390.812	2.793.969

14. Government grants and incentives

	December 31, 2012	December,31 2011
Short term	670.521	621.992
Long term	2.332.562	1.017.366
Total	3.003.083	1.639.358

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

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15. Provisions, contingent assets and liabilities

Provisions – short term

	December 31, 2012	December,31 2011
Provision for other costs	208.617.007	183.334.944
Warranty provision	13.391.500	13.081.127
Provision for vacation pay liability	3.313.961	2.235.464
Blue-collar worker salary difference provision	1.504.996	-
Cost provision of imported goods	1.039.950	-
Provision for sales commissions	894.634	1.920.005
Provision for legal cases	127.838	200.000
Provision for guarantee letter commissions	43.124	-
	228.933.010	200.771.540

Provisions – long term

	December 31, 2012	December,31 2011
Warranty provision	4.443.939	5.687.802
	4.443.939	5.687.802

Provision for other costs

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

The movements of provision for other cost are as follows:

	December 31, 2012	December,31 2011
January 1	183.334.944	94.164.831
Additional provision	37.591.617	56.880.993
Foreign exchange valuation	(12.309.554)	32.289.120
As of December 31	208.617.007	183.334.944

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15. Provisions, contingent assets and liabilities (continued)

Warranty provision

The Company provides one year warranty for minibus and Land Rover vehicles and 2 years warranty for certain armoured vehicle models and commercial vehicles sold. Therefore, warranty expense provision has been recorded only for the vehicles under guarantee as of the balance sheet date. The movement of the warranty expense provision is as follows:

	December 31, 2012	December,31 2011
January 1	18.768.929	6.511.877
Additional provision (Note 21)	17.345.018	28.823.464
Realized payments	(18.278.508)	(16.566.412)
As of December 31	17.835.439	18.768.929

Provision for sales commissions

The movements of provision for sales commissions are as follows:

	December 31, 2012	December,31 2011
January 1	1.920.005	1.011.614
Increase	1.374.984	10.516.416
Realized	(2.400.355)	(9.608.025)
As of December 31	894.634	1.920.005

Provision for vacation pay liability

The movements of provision for vacation pay liability are as follows:

	December 31, 2012	December 31, 2011
January 1	2.235.464	1.922.831
Increase in provision, net (Note 21)	1.078.497	312.633
As of December 31	3.313.961	2.235.464

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15. Provisions, contingent assets and liabilities (continued)

Commitments and contingencies

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

Guarantees given by the Company	December 31, 2012	December 31, 2011
a. Total amount of guarantees, pledges and mortgages given in the name of legal entity	637.586.146	649.585.517
b. Total amount of guarantees, pledges and mortgages given in favour of the parties which are included in the scope of full consolidation.	-	-
c. Total amount of guarantees, pledges and mortgages given to third parties for their liabilities in the purpose of conducting the ordinary operations.	-	-
d. Total amount of other guarantees, pledges and mortgages	-	-
Total	637.586.146	649.585.517

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

	December 31, 2012		December 31, 2011	
	Original currency	TL	Original currency	TL
USD	301.585.793	537.606.836	301.322.506	569.168.082
EUR	15.175.004	35.687.056	13.492.893	32.973.933
GBP	9.192	26.387	12.027	35.081
TL	64.265.867	64.265.867	47.408.421	47.408.421
		637.586.146		649.585.517

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

	December 31, 2012	December 31, 2011
Guarantee letters given		
Under secretariat of Ministry of Defense	405.591.826	439.881.761
Other	231.994.320	209.703.756
	637.586.146	649.585.517

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15. Provisions, contingent assets and liabilities (continued)

Letters of guarantees

a) Guarantees given as of December 31, 2012 and December 31, 2011 are as follows:

	December 31, 2012	December 31, 2011
Bank letters of guarantee (*)	637.586.146	649.585.517
	637.586.146	649.585.517

(*) Bank letter of guarantee amounting to TL 405.591.826 are given to Under Secretariat of Ministry of Defense within the scope of Altay Project. (December 31, 2011 – TL 439.881.761)

b) Guarantee received as of December 31, 2012 and 2011 as follows;

	December 31, 2012	December 31, 2011
Bank letters of guarantee (**)	285.704.758	225.181.079
Guarantee notes	56.509.498	53.460.035
Mortgages received	3.842.000	3.842.000
	346.056.256	282.483.114

(**) Bank letters of guarantee amounting to TL 157.770.977 are obtained from the sub-contractors for Altay Project (December 31, 2011 - TL 116.160.705).

Contingent assets

The case of tax deduction related to R&D discount for the R&D activities in 2010 has ended on behalf of the Company and TL 2.923.627 has been returned to the Company. For the same case of 2011, it is subject to legal case and not concluded yet. The expected return amount of 2011 is TL 3.963.320. There is no new legal case as of September 30, 2012 but the expected effective amount as of December 31, 2012 is TL 12.517.001.

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16. Employee benefits

	December 31, 2012	December 31, 2011
Reserve for retirement pay	13.716.119	9.110.483
Total	13.716.119	9.110.483

Reserve for retirement pay

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

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

The amount payable consists of one month's salary limited to a maximum of TL 3.034 for each year of service as of December 31, 2012 (December 31, 2011 - TL 2.732).

The liability is not funded, as there is no funding requirement.

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

The CMB Accounting Standards 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:

	December 31, 2012	December 31, 2011
Net discount rate (%)	3,86	4,63
Turnover rate to estimate the probability of retirement (%)	4	7

The principal assumption is that the maximum liability for each year of service will increase in line with inflation. Thus the discount rate applied represents the expected real rate after adjusting for the anticipated effects of future inflation.

The movements of reserve for retirement pay are as follows:

	December 31, 2012	December 31, 2011
January 1	9.110.483	7.088.568
Interest expense	911.048	708.857
Current year provision (including actuarial gains/losses)	5.383.700	2.440.400
Payments	(1.689.112)	(1.127.342)
As of December 31	13.716.119	9.110.483

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17. Other assets and liabilities

a) Other current assets:

	December 31, 2012	December 31, 2011
Advances given	131.619.702	105.134.614
Value added tax receivables	17.241.400	25.754.551
Prepaid taxes	2.072.249	-
Prepaid expenses	1.834.082	1.373.991
Other	2.166.929	1.442.035
Total	154.934.363	133.705.191

b) Other current liabilities:

	December 31, 2012	December 31, 2011
Taxes and funds payable	5.902.620	5.253.198
Social security premiums payable	3.152.862	2.476.644
Deferred special consumption tax	249.277	100.355
Deferred maintenance revenues	1.595.339	-
Other	109.240	403.778
Total	11.009.338	8.233.975

c) Other non-current liabilities:

	December 31, 2012	December 31, 2011
Deferred maintenance revenues(*)	5.644.080	-
Total	5.644.080	-

(*) Composed of deferred repair maintenance income for sold vehicles via agreements signed.

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18. Shareholders' equity

Share Capital

As of December 31, 2012 and 2011, the principal shareholders and their respective shareholding percentages are as follows:

Shareholders	December 31, 2012		December 31, 2011	
	TL	%	TL	%
Koç Holding A.Ş.	10.722.750	44,68	10.722.750	44,68
Ünver Holding A.Ş.	5.954.944	24,81	5.954.944	24,81
Other	7.322.306	30,51	7.322.306	30,51
Total	24.000.000	100,00	24.000.000	100,00
Inflation adjustment on equity items	52.743.030		52.743.030	
Total	76.743.030		76.743.030	

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

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

Listed companies are subject to dividend requirements regulated by the CMB as follows:

In accordance with the Capital Market Board Communiqué IV, Nr: 27, article 5th, in the listed companies, the first dividend shall not be below %20 of the distributable profit deducted the accumulated losses. Based on their decisions taken in the ordinary general boards, listed joint-stock companies have their right to distribute dividends in cash, in share certificates, in partial distribution within cash or share certificates while retaining a portion in the partnership.

Based on the decision of CMB, distributable profit -calculated upon the regulations of CMB related with the dividend distribution- shall be fully distributed if the amount is adequate to be provided by the distributable profits with respect to the statutory books, otherwise, all of the net distributable amount in the statutory books shall be distributed. No profit distribution shall be made in the case of tax loss is met in either local books or the financial statements prepared in accordance with CMB regulations.

Based on the decision of CMB dated January 27, 2010, it is decided not to determine any minimum dividend payment distribution requirement for publicly held companies.

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18. Shareholders' equity (continued)

Inflation adjustments to issued capital and historical amount of extraordinary reserves can be used for in kind capital increase, dividend distribution in cash or the net loss deduction. In case inflation adjustment to issued capital is used as dividend distribution in cash, it is subject to corporation tax.

As of December 31, 2012, in the financial statements of the Company prepared in accordance with financial reporting standards published by Capital Markets Board net income of the year and prior year profits including other reserves to be distributed as dividend is TL 76.384.978 (December 31, 2011 – TL 54.846.604) and TL 65.806.705 (December 31, 2011 – TL 63.640.101), respectively. Current year net income of the Company in statutory books is TL 64.221.758 (December 31, 2011 – TL 55.583.667), other reserves to be distributed as dividend (without being subject to additional taxation) is TL 85.032.212 (December 31, 2011 – TL 79.263.650). In addition, in statutory books there is TL 16.224.790 inflation adjustment and TL 11.040.213 other capital reserves that are subject to taxation if they are distributed. After deduction of first legal reserves, current year net profit in statutory books is TL 64.221.758 (December 31, 2011 – TL 55.583.667). As of our report date, there is no decision of dividend distribution related to 2012.

In accordance with the Communiqué, as of December 31, 2012 and December 31, 2011, the details of equity, based on which the dividend will be distributed is as follows:

	December 31, 2012	December 31, 2011
Paid-in share capital	24.000.000	24.000.000
Inflation adjustment on equity items	52.743.030	52.743.030
Restricted reserves	22.798.147	18.118.147
Retained earnings		
- Extraordinary reserves	54.856.622	52.690.018
- Inflation adjustments on legal reserves	10.950.083	10.950.083
Net income for the year	76.384.978	54.846.604
Total shareholders' equity	241.732.860	213.347.882

As of December 31, 2012 and 2011, the restated amounts and the equity restatement differences of the aforementioned nominal values are as follows:

	December 31, 2012		
	Historical value	Inflation adjustments on equity items	Restated value
Share capital	24.000.000	52.743.030	76.743.030
Legal reserves	22.798.147	10.950.083	33.748.230
Total	46.798.147	63.693.113	110.491.260

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18. Shareholders' equity (continued)

		December 31, 2011	
	Historical value	Inflation adjustments on equity items	Restated value
Share capital	24.000.000	52.743.030	76.743.030
Legal reserves	18.118.147	10.950.083	29.068.230
Total	42.118.147	63.693.113	105.811.260

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

	December 31, 2012	December 31, 2011
Legal reserves	22.798.147	18.118.147
Extraordinary reserves	85.032.212	79.263.650
Total	107.830.359	97.381.797

Dividends distributed during the year based on previous year's net income per statutory financial statements

48.000.000

15.000.000

Dividend paid per share (kuruş)

0,200

0,063

The Company's share capital is fully paid, and consists of 24.000.000.000 shares with kuruş 0,1 par value each.

19. Sales and cost of sales

Net sales

	January 1 – December 31, 2012	January 1 – December 31, 2011
Domestic sales	744.807.655	726.544.926
Export sales	260.164.645	164.180.669
Gross sales	1.004.972.300	890.725.595
Less: sales discounts and sales returns	(480.068)	(200.406)
Net sales	1.004.492.232	890.525.189

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19. Sales and cost of sales (continued)

Sales of the Company in terms of the number of vehicles sold are as follows:

	January 1 – December 31, 2012	January 1 – December 31, 2011
Commercial vehicle	481.503.639	463.283.055
Armoured vehicles	307.079.062	253.065.734
Other sales (*)	215.909.531	174.176.400
	1.004.492.232	890.525.189

(*) TL 130.428.038 of this amount is related to revenues of uncompleted contracts (2011 - 91.827.072 TL)

Cost of sales

	January 1 – December 31, 2012	January 1 – December 31, 2011
Cost of finished goods sold	740.981.401	667.811.517
Cost of merchandise sold	41.482.525	27.009.109
Cost of sales	782.463.926	694.820.626

20. Research and development expenses, marketing, sales and distribution expenses, general administrative expenses

	January 1 – December 31, 2012	January 1 – December 31, 2011
Marketing, sales and distribution expenses	78.654.006	83.213.660
General administrative expenses	33.678.006	25.161.744
Research and development expenses	18.030.947	12.355.838
Total operating expenses	130.362.959	120.731.242

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21. Expenses by nature

	December 31, 2012	December 31, 2011
Cost of raw material and consumption goods	626.783.709	610.158.079
Change in finished goods and work-in-process	(288.737)	(38.436.149)
Cost of merchandises sold	41.688.944	25.433.656
Depreciation and amortization expense	29.092.605	20.412.484
Personnel expenses	111.926.656	93.856.134
Operational expenses	23.390.540	19.704.420
Administrative expenses	22.943.859	17.608.771
Warranty reserve expense (Note 15)	17.345.018	28.823.464
Exhibition and fair expenses	5.314.642	3.465.673
Transportation, distribution and storage expenses	9.356.360	5.244.588
Advertisement and promotion expenses	7.394.172	4.546.397
Provisions of impairment for inventories (Note 10)	40.236	1.575.452
Other expenses	17.838.881	23.158.899
Total	912.826.885	815.551.868

The breakdown of personnel expenses is as follows:

	January 1 – December 31, 2012	January 1 – December 31, 2011
With respect to the account:		
Cost of sales and inventories on hand	62.407.196	55.115.857
Costs related to uncompleted contracts	17.950.406	13.931.641
Capitalized development expenditures	16.118.033	13.172.755
General administrative expenses	16.248.996	12.706.471
Marketing, sales and distribution expenses	14.144.460	11.434.451
Research and development expenses	1.175.598	667.714
	128.044.689	107.028.889
By nature:		
Wages and salaries	95.508.920	81.508.476
Social security premiums	14.526.177	12.494.883
Other social benefits	10.636.347	9.563.640
Employee termination benefits (Note 16)	6.294.748	3.149.257
Provision for vacation pay liability (Note 15)	1.078.497	312.633
	128.044.689	107.028.889

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22. Other operating income / expenses

	January 1 – December 31, 2012	January 1 – December 31, 2011
Other income		
Provisions no longer required (Note 8)	1.326.573	147.510
Other service income	963.179	1.147.517
R&D test center income	661.524	374.069
R&D incentive income	622.673	616.601
Gain on sale of fixed assets	15.168	1.020.382
Waste revenues	264.301	242.910
Other	951.034	668.004
Total	4.804.452	4.216.993
	January 1 – December 31, 2012	January 1 – December 31, 2011
Other expense		
Provision for doubtful receivables (Note 8)	(2.736.485)	(7.944.800)
Other	(151.596)	(403.664)
Total	(2.888.081)	(8.348.464)

23. Financial income

	January 1 – December 31, 2012	January 1 – December 31, 2011
Foreign exchange gains	90.476.866	54.018.008
Forward income	20.290.361	19.655.520
Term difference income related with sales	13.466.940	12.947.710
Interest income from time deposits	1.031.089	1.558.703
Foreign exchange gains on bank borrowings	-	132.000
Total	125.265.256	88.311.941

24. Financial expense

	January 1 – December 31, 2012	January 1 – December 31, 2011
Foreign exchange losses	(89.550.577)	(69.860.413)
Interest expense on bank borrowings	(26.195.253)	(16.075.841)
Forward expense	(21.283.203)	(7.937.948)
Foreign exchange losses on bank borrowings	-	(3.503.248)
Total	(137.029.033)	(97.377.450)

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25. Tax assets and liabilities

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

In Turkey, the corporation tax rate is 20% (2011 - 20%). Corporate tax returns are required to be filed by the twenty-fifth day of the fourth month following the balance sheet date and taxes must be paid in one installment by the end of the fourth month. The tax legislation provides for a temporary tax of 20% to be calculated and paid based on earnings generated for each quarter. The amounts thus calculated and paid are offset against the final corporate tax liability for the year.

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

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

Research and development incentive rate which will be calculated over the research and development expenditures, is raised to 100% from 40% with the amendment made to the 10th article of the Tax Law numbered 5520 as a result of the amendment in the 35th article of the Law 5746 related to the Support of Research and Development Operations.

The aforementioned law has been enacted as of April 1, 2008. Accordingly, income tax-payers can deduct 100% of the expenditures made as of then, which are related to research and development related to new technology and information developments. Research and development incentives shall be calculated over the total expenditures made in 2012 and 2011.

As a result of its research and development expenditures made in 2012 amounting to TL 39.666.087 (2011 – TL 26.657.372), the Company has utilized research and development incentives at 100% deduction without any withholding tax. The Company has an R&D center certificate.

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

	December 31, 2012	December 31, 2011
Income tax payable	6.799.697	11.633.639
(-) Prepaid tax	(8.871.946)	(8.543.854)
Income tax payable, net	(2.072.249)	3.089.785

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25. Tax assets and liabilities (continued)

The breakdown of total tax expense for the year ended December 31, 2012 and 2011:

	January 1 – December 31, 2012	January 1 – December 31, 2011
Deferred tax (expense)/ income	(1.556.016)	4.703.902
Current tax expense	(3.876.947)	(11.633.639)
Total tax expense	(5.432.963)	(6.929.737)

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

	January 1 – December 31, 2012	January 1 – December 31, 2011
Profit before tax	81.817.941	61.776.341
Income tax charge at effective tax rate 20%	(16.363.588)	(12.355.268)
Effect of exemptions and incentives	10.856.844	5.331.474
Other permanent differences	73.781	94.057
Total tax expense	(5.432.963)	(6.929.737)

As of December 31, 2012 and 2011, the breakdown of deferred tax bases and deferred tax liability computed using the current effective tax rates are as follows:

	Cumulative temporary differences		Deferred tax assets/(liability)	
	December 31, 2012	December 31, 2011	December 31, 2012	December 31, 2011
Property, plant and equipment	12.960.293	(8.101.095)	889.236	1.861.076
Intangibles	(16.526.630)	(12.721.283)	(3.305.326)	(2.544.257)
Deferred financial expense	(305.425)	(517.981)	(61.085)	(103.596)
Inventories	163.859	(325.962)	32.772	(65.192)
Warranty provision	17.835.439	18.768.929	3.567.088	3.753.786
Reserve for retirement pay	13.716.119	9.110.483	2.743.224	1.822.097
Deferred financial income	4.175.331	1.230.242	835.066	246.048
Other provisions	8.986.866	7.704.234	1.797.373	1.540.847
Adjustment for percentage of completion method on construction projects	13.651.109	38.906.026	2.730.222	7.781.205
Other	9.318.830	(8.218.310)	1.863.766	(1.643.662)
Deferred tax asset			11.092.336	12.648.352

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25. Tax assets and liabilities (continued)

The movement of deferred tax asset for the years ended December 31, 2012 and 2011 is as follows:

	December 31, 2012	December 31, 2011
January 1	12.648.352	7.944.450
Deferred tax income /(expense)	(1.556.016)	4.703.902
	11.092.336	12.648.352

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 year 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.

	December 31, 2012	December 31, 2011
Net income attributable to shareholders (TL)	76.384.978	54.846.604
Weighted average number of issued shares	24.000.000.000	24.000.000.000
Earnings per share (kuruş)	0,318	0,229

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27. Related party disclosures

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

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

	December 31, 2012	December 31, 2011
Due from related parties		
Ram Dış Ticaret A.Ş. (1) (*)	23.141.922	19.008.642
Otokar Europe SAS (3)	608.470	-
Türk Traktör ve Ziraat Makineleri A.Ş. (1)	492.700	572.854
Otokoç Otomotiv Tic. ve San. A.Ş. (1)	283.023	-
Ford Otosan A.Ş. (2)	23.950	194.195
RMK Marine Gemi Yapım San. Deniz Taş. İşl. A.Ş. (1)	-	80.538
Aygaz A.Ş. (1)	-	6.135
Total	24.550.065	19.862.364

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

	December 31, 2012	December 31, 2011
Due to related parties		
Ram Dış Ticaret A.Ş. (1)	2.471.861	900.459
KoçSistem Bilgi ve İletişim Hizm. A.Ş. (1)	1.588.261	621.707
Zer Merkezi Hizmetler A.Ş. (1)	1.583.589	1.224.505
Setur Servis Turistik A.Ş. (1)	904.628	461.095
Akpa Dayanıklı Tük. Paz. A.Ş. (1)	494.223	407.759
Ram Sigorta Aracılık Hz. A.Ş. (1)	483.269	118.255
Ark İnşaat A.Ş. (1)	442.799	402.744
Arçelik A.Ş. (1)	243.629	1.764
Koçtaş Yapı Marketleri A.Ş. (1)	221.594	155.537
Otokoç Otomotiv Tic. ve San. A.Ş. (1)	195.013	103.623
Opet Fuchs Madeni Yağ A.Ş. (1)	154.030	-
Divan Turizm İşletmeleri A.Ş. (1)	66.805	-
Opet Petrolcülük A.Ş. (1)	54.823	67.702
Koç Holding A.Ş. (2)	49.343	9.069
Promena Elektronik Ticaret A.Ş. (1)	33.406	17.336
Bilkom A.Ş. (1)	1.463	-
Ford Otosan A.Ş. (2)	179	-
Aygaz Doğal Gaz Toptan Satış A.Ş. (1)	-	262.254
Otokar Europe SAS (3)	-	194.822
Setair Hava Taşımacılığı ve Hizm. A.Ş. (1)	-	121.995
Tat Konserve San. A.Ş. (1)	-	13.598
Vehbi Koç Vakfı Amerikan Hastanesi (1)	-	1.918
Total	8.988.915	5.086.142

(1) Shareholders' subsidiary / joint venture

(2) Shareholder

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

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27. Related party disclosures (continued)

ii) Major sales and purchase transactions with related parties:

Product sales and service revenue	January 1 – December 31, 2012	January 1 – December 31, 2011
Ram Dış Ticaret A.Ş. (1) (*)	233.281.162	100.196.591
Türk Traktör ve Ziraat Makineleri A.Ş. (1)	6.808.068	4.739.830
Zer Merkezi Hizmetler A.Ş. (1)	1.610.352	1.246.480
Otokar Europe SAS (3)	607.601	-
Aygaz A.Ş. (1)	301.178	86.710
Otokoç Otomotiv Tic. ve San. A.Ş. (1)	235.000	-
Ford Otosan A.Ş.(2)	2.116	1.424.499
Opet Petrolcülük A.Ş. (1)	-	1.656
Total	242.845.477	107.695.766

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

Purchase of property, plant and equipment	January 1 – December 31, 2012	January 1 – December 31, 2011
Ark İnşaat A.Ş. (1)	4.399.718	1.173.240
Koç Sistem Bilgi ve İletişim Hizm. A.Ş. (1)	3.005.744	1.498.378
Zer Merkezi Hizmetler A.Ş. (1)	68.494	71.703
Otokoç Otomotiv Tic. ve San. A.Ş. (1)	61.885	48.383
Koçtaş Yapı Marketleri A.Ş. (1)	40.802	-
Arçelik A.Ş. (1)	36.924	21.833
Bilkom A.Ş. (1)	-	9.817
Koç.net Hab.Tek. İlt. Hiz. A.Ş. (1) (**)	-	5.825
Total	7.613.567	2.829.179

(**) As of November 30, 2011 Koç net Haberleşme Teknik İletişim Hizmetleri A.Ş. is sold to a third party by its shareholders. Transactions until November 30, 2011 are disclosed as related party transactions.

Inventory purchased	January 1 – December 31, 2012	January 1 – December 31, 2011
Zer Merkezi Hizmetler A.Ş. (1)	10.968.070	10.845.305
Ram Dış Ticaret A.Ş. (1)	6.124.679	9.330.678
Akpa Dayanıklı Tük.Paz. A.Ş. (1)	3.374.953	2.759.744
Koçtaş Yapı Marketleri A.Ş. (1)	1.005.270	221.801
Opet Petrolcülük A.Ş. (1)	941.070	692.529
Türk Traktör ve Ziraat Makineleri A.Ş. (1)	829.041	906.208
Opet Fuchs Madeni Yağ A.Ş. (1)	677.611	-
Arçelik A.Ş. (1)	205.837	13.514
Ford Otosan A.Ş.(2)	392	-
Aygaz Doğal Gaz Toptan Satış A.Ş. (1)	-	1.398.498
Total	24.126.923	26.168.277

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27. Related party disclosures (continued)

Services purchased	January 1 – December 31, 2012	January 1 – December 31, 2011
Ram Dış Ticaret A.Ş. (1)	7.505.596	1.023.206
Setur Servis Turistik A.Ş. (1)	4.335.385	2.694.594
Otokar Europe SAS (3)	2.378.439	-
Koç Holding A.Ş. (2)	1.353.018	1.170.148
Otokoç Otomotiv Tic. ve San. A.Ş. (1)	1.325.130	781.813
KoçSistem Bilgi ve İletişim Hizm. A.Ş. (1)	1.051.726	424.062
Promena Elektronik Ticaret A.Ş. (1)	170.752	158.110
Setair Hava Taşımacılığı ve Hizm. A.Ş. (1)	111.702	154.255
Divan Turizm İşletmeleri A.Ş. (1)	69.905	4.605
Koç Üniversitesi (1)	56.896	179.264
Ram Sigorta Aracılık Hz. A.Ş. (1) (*)	34.513	1.161.409
Rahmi Koç Vakfı Müzesi (1)	28.240	-
Yapı Kredi Sigorta A.Ş. (1)	17.320	23.520
Tanı Pazarlama ve İletişim Hizmetleri A.Ş. (1)	16.676	13.318
Tüpraş-Türkiye Petrol Rafinerileri A.Ş. (1)	2.922	-
Bilkom A.Ş. (1)	2.396	1.444
Tofaş Türk Otomobil Fabrikası A.Ş.(1)	1.251	-
Eltek Elektrik Enerji İth.İhr.Top.Tic. A.Ş. (1)	-	1.690.458
Koç.net Hbl.Tek.İlt.Hz.A.Ş.**	-	275.648
Platform Araştırma ve Geliştirme Taş.Tic. A.Ş. (1)	-	152.388
Vehbi Koç Vakfı Amerikan Hastanesi (1)	-	26.730
Tat Konserve San. A.Ş. (1)	-	13.617
Otokoç Sigorta Aracılık Hizmetleri A.Ş. (1)	-	1.184
Total	18.461.867	9.949.773

(*) It includes paid and accrued premium as of December 31, 2012 in accordance with insurance policies signed between unrelated insurance companies via Ram Sigorta Aracılık Hizmetleri A.Ş. which is an insurance agency.

(**) As of November 30, 2011 Koç net Haberleşme Teknik İletişim Hizmetleri A.Ş. is sold to a third party by its shareholders. Transactions until November 30, 2011 are disclosed as related party transactions.

Bank deposits	December 31, 2012	December 31, 2011
Yapı ve Kredi Bankası A.Ş. (1) - demand deposits	903.749	1.600.896
	903.749	1.600.896

Checks and notes in collection	December 31, 2012	December 31, 2011
Yapı ve Kredi Bankası A.Ş. (1)	37.314.908	45.089.091
	37.314.908	45.089.091

(1) Shareholders' subsidiary / joint venture

(2) Shareholder

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

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27. Related party disclosures (continued)

For the year ended December 31, financial income and expense with related parties:

	January 1 – December 31, 2012	January 1 – December 31, 2011
Borrowings		
Yapı ve Kredi Bankası A.Ş. (1)	2.025.916	-
Total	2.025.916	-
Interest income		
Yapı ve Kredi Bankası A.Ş. (1)	243.407	212.503
Total	243.407	212.503
Foreign exchange gains		
Ram Dış Ticaret A.Ş. (1)	7.493.280	10.564.359
Yapı ve Kredi Bankası A.Ş. (1)	338.928	1.129.765
Other (1)	2.308	1.732
Total	7.834.516	11.695.856
Forward gains /(losses)		
Yapı ve Kredi Bankası A.Ş.		
Forward gains	-	-
Forward loss	21.000	-
Total	21.000	-
Foreign exchange losses		
Ram Dış Ticaret A.Ş. (1)	8.680.101	24.393.296
Yapı ve Kredi Bankası A.Ş. (1)	1.479.877	975.834
Other (1)	13.791	25.529
Total	10.173.769	25.394.659

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27. Related party disclosures (continued)

	January 1 – December 31, 2012	January 1 – December 31, 2011
Interest expense		
Yapı ve Kredi Bankası A.Ş. (1)	132.332	130.367
Total	132.332	130.367

(1) Shareholders' subsidiary/ joint venture

Benefits provided to executives

Salaries and similar benefits provided to the executive management by the Company for the year ended December 31, 2012 amounted to TL 9.218.838 (2011 - TL 7.762.314). Executives are composed of board of directors members, general manager and assistants of general manager.

28. Nature and level of risks arising from financial instruments

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

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 Company mainly arises from trade receivables. The Company 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 Company 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 Company 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 (Note 8).

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Otokar Otomotiv ve Savunma Sanayi Anonim Şirketi

Notes to the financial statements (continued)

As of December 31, 2012

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

December 31, 2012	Receivables			Derivative instruments
	Trade receivables	Other receivables(3)	Bank deposits	
Maximum credit risk exposure as of reporting date (A+B+C+D+E) (1)	284.091.153	131.669.388	43.832.628	-
- Maximum risk secured by guarantee (2)	(137.969.024)	-	-	-
A. Net book value of financial assets neither overdue nor impaired	280.915.344	131.669.388	43.832.628	-
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	1.293.433	-	-	-
D. Net book value of impaired assets	1.882.376	-	-	-
- Overdue (gross book value)	21.629.824	-	-	-
- Impairment (-) (Note 8)	(19.747.448)	-	-	-
- Net value under guarantee	1.882.376	-	-	-
- Not overdue (gross book value)	-	-	-	-
- Impairment (-)	-	-	-	-
- Net value under guarantee	-	-	-	-
E. Off- balance sheet items having credit risk	-	-	-	-

December 31, 2011	Receivables			Derivative instruments
	Trade receivables	Other receivables(3)	Bank deposits	
Maximum credit risk exposure as of reporting date (A+B+C+D+E) (1)	297.258.930	105.141.094	2.897.205	-
- Maximum risk secured by guarantee (2)	(128.790.330)	-	-	-
A. Net book value of financial assets neither overdue nor impaired	294.143.908	105.141.094	2.897.205	-
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	1.473.783	-	-	-
D. Net book value of impaired assets	1.641.239	-	-	-
- Overdue (gross book value)	19.978.775	-	-	-
- Impairment (-) (Note 8)	(18.337.536)	-	-	-
- Net value under guarantee	1.641.239	-	-	-
- 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.

(3) The major amount of other receivables consists of advances given.

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Otokar Otomotiv ve Savunma Sanayi Anonim Şirketi

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As of December 31, 2012

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

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 is managed by maintaining the availability of adequate committed funding lines from high quality lenders.

As of December 31, 2012 and December 31, 2011, maturities of gross trade payables and financial liabilities are as follows:

December 31, 2012

Maturities per agreements	Book value	Total cash outflow per agreement (=I+II+III+IV)	Less than 3 month (I)	Between 3-12 month (II)	Between 1-5 year (III)	Over 5 years (IV)
Non-derivative financial liabilities						
Bank loans	286.193.001	333.494.844	51.751.994	16.242.844	265.500.006	
Trade payables	85.026.598	85.332.993	85.146.693	186.300	-	-
<hr/>						
Expected maturities	Book value	Total expected cash outflow (=I+II+III+IV)	Less than 3 month (I)	Between 3-12 month (II)	Between 1-5 year (III)	Over 5 years (IV)
Non-derivative financial liabilities						
Other payables	10.269.896	10.269.896	10.269.896	-	-	-
Other current liabilities	11.009.338	11.009.338	11.009.338	-	-	-
<hr/>						
Expected maturities (or maturities per agreement)	Book value	Total cash outflow expected / per agreement (=I+II+III+IV)	Less than 3 month (I)	Between 3-12 month (II)	Between 1-5 year (III)	Over 5 years (IV)
Derivative financial liabilities (net)						
Derivative cash inflows	(2.193.011)	(2.193.011)	(2.193.011)	-	-	-
Derivative cash outflows	211.228.195	211.228.195	211.228.195	-	-	-
Derivative cash outflows	(213.421.206)	(213.421.206)	(213.421.206)	-	-	-

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Otokar Otomotiv ve Savunma Sanayi Anonim Şirketi

Notes to the financial statements (continued)

As of December 31, 2012

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

December 31, 2011

Maturities per agreements	Book value	Total cash outflow per agreement (=I+II+III+IV)	Less than 3 month (I)	Between 3-12 month (II)	Between 1-5 year (III)	Over 5 years (IV)
Non-derivative financial liabilities						
Bank loans	179.339.871	189.507.648	16.888.534	88.111.818	84.507.296	-
Trade payables	78.495.682	79.015.538	78.849.488	166.050	-	-

Expected maturities	Book value	Total expected cash outflow (=I+II+III+IV)	Less than 3 month (I)	Between 3-12 month (II)	Between 1-5 year (III)	Over 5 years (IV)
Non-derivative financial liabilities						
Other payables	6.580.275	6.580.275	6.580.275	-	-	-
Other current liabilities	8.233.975	8.233.975	8.233.975	-	-	-

Expected maturities (or maturities per agreement)	Book value	Total cash outflow expected / per agreement (=I+II+III+IV)	Less than 3 month (I)	Between 3-12 month (II)	Between 1-5 year (III)	Over 5 years (IV)
Derivative financial liabilities (net)	9.110.483	9.110.483	9.110.483	-	-	-
Derivative cash inflows	217.636.395	217.636.395	217.636.395	-	-	-
Derivative cash outflows	(208.525.912)	(208.525.912)	(208.525.912)	-	-	-

Market risk

a) Foreign currency risk and related sensitivity analysis

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

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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 Company in the original currencies.;

Table of foreign currency position				
December 31,				
2012				
	TL equivalent (functional currency)	USD	EUR	GBP
1. Trade receivables	158.793.258	3.871.728	64.121.523	382.100
2a. Monetary financial assets (including cash, bank accounts)	139.389.423	71.086.883	5.339.886	39.060
2b. Non-monetary financial assets	-	-	-	-
3. Other	-	-	-	-
4. Current assets (1+2+3)	298.182.681	74.958.611	69.461.409	421.160
5. Trade receivables	59.397.503	-	25.257.262	-
6a. Monetary financial assets	61.325.046	34.402.023	-	-
6b. Non-monetary financial assets	-	-	-	-
7. Other	-	-	-	-
8. Non-current assets (5+6+7)	120.722.549	34.402.023	25.257.262	-
9. Total assets(4+8)	418.905.230	109.360.634	94.718.671	421.160
10. Trade payables	(23.416.262)	(2.241.797)	(7.608.276)	(532.134)
11. Financial liabilities	-	-	-	-
12a. Monetary other liabilities	(331.799.032)	(185.715.363)	(138.031)	(145.680)
12b. Non-monetary other liabilities	(1.293.435)	-	(550.000)	-
13. Current liabilities (10+11+12)	(356.508.729)	(187.957.160)	(8.296.307)	(677.814)
14. Trade payables	-	-	-	-
15. Financial liabilities	-	-	-	-
16a. Monetary other liabilities	-	-	-	-
16b. Non-monetary other liabilities	(5.644.080)	-	(2.400.000)	-
17. Non-current liabilities (14+15+16)	(5.644.080)	-	(2.400.000)	-
18. Total liabilities (13+17)	(362.152.809)	(187.957.160)	(10.696.307)	(677.814)
19. Net asset/(liability) position of off-balance sheet derivative instruments(19a-19b)	(62.253.705)	74.575.000	(83.000.000)	-
19a. Hedged total assets amount	150.763.395	84.575.000	-	-
19b. Hedged total liabilities amount	(213.017.100)	(10.000.000)	(83.000.000)	-
20. Net foreign currency asset/(liability) position (9+18+19)	(5.501.284)	(4.021.526)	1.022.364	(256.654)
21. Net foreign currency asset/(liability) position of monetary items (=1+2a+5+6a-10-11-12a-14-15-16a)	63.689.936	(78.596.526)	86.972.364	(256.654)
22. Total fair value of financial instruments used for foreign currency hedging	(62.253.705)	74.575.000	(83.000.000)	-
23. Export	260.308.667	105.282.487	31.061.056	1.313.705
24. Import	347.213.892	81.805.444	80.777.523	5.096.809

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

Table of foreign currency position				
December 31,				
2011				
	TL equivalent (functional currency)	USD	EUR	GBP
1. Trade receivables	174.028.497	23.283.527	53.135.721	66.907
2a. Monetary financial assets (including cash, bank accounts)	109.497.977	48.360.657	7.377.015	41.680
2b. Non-monetary financial assets	-	-	-	-
3. Other	-	-	-	-
4. Current assets (1+2+3)	283.526.474	71.644.184	60.512.736	108.587
5. Trade receivables	81.455.466	-	33.331.478	-
6a. Monetary financial assets	-	-	-	-
6b. Non-monetary financial assets	-	-	-	-
7. Other	-	-	-	-
8. Non-current assets (5+6+7)	81.455.466	-	33.331.478	-
9. Total assets(4+8)	364.981.940	71.644.184	93.844.214	108.587
10. Trade payables	(31.669.169)	(3.534.468)	(6.277.392)	(3.308.955)
11. Financial liabilities	-	-	-	-
12a. Monetary other liabilities	(331.684.237)	(175.426.410)	(131.472)	-
12b. Non-monetary other liabilities	-	-	-	-
13. Current liabilities (10+11+12)	(363.353.406)	(178.960.878)	(6.408.864)	(3.308.955)
14. Trade payables	-	-	-	-
15. Financial liabilities	-	-	-	-
16a. Monetary other liabilities	-	-	-	-
16b. Non-monetary other liabilities	-	-	-	-
17. Non-current liabilities (14+15+16)	-	-	-	-
18. Total liabilities (13+17)	(363.353.406)	(178.960.878)	(6.408.864)	(3.308.955)
19. Net asset/(liability) position of off-balance sheet derivative instruments(19a-19b)	9.022.907	110.153.300	(85.328.550)	3.250.000
19a. Hedged total assets amount	217.548.819	110.153.300	-	3.250.000
19b. Hedged total liabilities amount	(208.525.912)	-	(85.328.550)	-
20. Net foreign currency asset/(liability) position (9+18+19)	10.651.441	2.836.606	2.106.800	49.632
21. Net foreign currency asset/(liability) position of monetary items (=1+2a+5+6a-10-11-12a-14-15-16a)	1.628.534	(107.316.694)	87.435.350	(3.200.368)
22. Total fair value of financial instruments used for foreign currency hedging	9.022.907	110.153.300	(85.328.550)	3.250.000
23. Export	164.179.416	67.880.140	20.41.483	140.177
24. Import	304.208.716	63.226.052	73.545.055	9.633.042

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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 Company's income before tax as of December 31, 2012 and 2011:

Exchange rate sensitivity analysis table		
December 31, 2012		
	Profit before tax	Profit before tax
	Appreciation of foreign currency	Depreciation of foreign currency
<i>In case 10% appreciation of USD against TL:</i>		
1- USD net asset/liability	(14.010.617)	14.010.617
2- Amount hedged for USD risk (-)	-	-
3- USD net effect (1+2)	(14.010.617)	14.010.617
<i>In case 10% appreciation of EUR against TL:</i>		
4- EUR net asset/liability	20.453.291	(20.453.291)
5- Amount hedged for EUR risk (-)	-	-
6- EUR net effect (4+5)	20.453.291	(20.453.291)
<i>In case 10% appreciation of GBP against TL:</i>		
7- GBP net asset/liability	(73.680)	73.680
8- Amount hedged for GBP risk (-)	-	-
9- GBP net effect (7+8)	(73.680)	73.680
Total (3+6+9)	6.368.994	(6.368.994)

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

(Convenience translation of financial statements originally issued in Turkish)

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As of December 31, 2012

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

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

b) Interest position table and related sensitivity analysis

Interest rate risk

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

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

As of December 31, 2012 and 2011, the financial liabilities of the Company 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 ratio. This ratio is calculated as net financial debt divided by total capital. Net financial debt is calculated as total borrowings (including borrowings as shown in balance sheet) less cash and cash equivalents.

	December 31, 2012	December 31, 2011
Total financial debt	286.193.001	179.339.871
Less: Cash and cash equivalents (Note 4)	(47.906.245)	(4.470.424)
Net financial debt	238.286.756	174.869.447
Total equity	241.732.860	213.347.882
Financial debt/shareholders' equity rate	99%	82%

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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 Company's assets that are measured at fair value at December 31, 2012 and 2011:

Liabilities	Level 1	Level 2	Level 3	Total
<u>December 31, 2012</u>				
Derivative financial instruments	-	2.193.011	-	2.193.011
Total	-	2.193.011	-	2.193.011

Assets	Level 1	Level 2	Level 3	Total
<u>December 31, 2011</u>				
Derivative financial instruments	-	9.022.907	-	9.022.907
Total	-	9.022.907	-	9.022.907

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 Company 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 Company could realize in a current market exchange.

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

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Notes to the financial statements (continued)

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29. Financial instruments (continued)

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.

30. Subsequent events

None.

31. Other matters which are significant to the financial statements or which should be disclosed for the purpose of true and fair interpretation of the financial statements

None.