

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

**CONVENIENCE TRANSLATION INTO ENGLISH OF
CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE INTERIM PERIOD 1 JANUARY - 30 JUNE 2016 AND
AUDITOR'S REVIEW REPORT**

(ORIGINALLY ISSUED IN TURKISH)

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

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

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OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

CONSOLIDATED BALANCE SHEET AS OF 30 JUNE 2016

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

	Notes	(Reviewed) 30 June 2016	(Audited) 31 December 2015
Assets			
Current assets			
Cash and cash equivalents	4	36.178.752	58.736.065
Trade receivables	7	266.953.067	344.453.922
Due from related parties	21	13.140.346	106.906.185
Due from other parties	7	253.812.721	237.547.737
Other receivables		831.566	2.090
Due from customers on contract works	9	200.418.575	-
Inventories	8	533.632.901	427.975.544
Derivative financial instruments	6	-	146.636
Prepaid expenses	13	149.619.352	122.691.548
Other current assets	13	106.108.216	65.687.162
Total current assets		1.293.742.429	1.019.692.967
Non-current assets			
Trade receivables, third parties	7	70.835.565	100.295.845
Other receivables, third parties		186.009	65.853
Due from customers on contract works	9	-	188.278.141
Financial investments		-	239.280
Property, plant and equipment	10	103.870.382	103.757.339
Intangibles	11	164.587.950	155.419.078
Deferred tax asset	19	32.094.554	37.313.671
Total non-current assets		371.574.460	585.369.207
Total assets		1.665.316.889	1.605.062.174

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

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

CONSOLIDATED BALANCE SHEET AS OF 30 JUNE 2016

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

	Notes	(Reviewed) 30 June 2016	(Audited) 31 December 2015
Liabilities			
Current liabilities			
Short-term financial liabilities	5	199.599.173	375.402
Short-term portion of long term	5	125.646.133	105.607.359
Derivative financial instruments	6	22.769	-
Trade payables	7	153.185.794	165.819.465
Due to related parties	21	3.613.597	27.169.350
Due to others	7	149.572.197	138.650.115
Employee benefit obligations	13	9.465.738	18.137.584
Other payables, third parties		41.536.645	36.228.439
Current income tax liabilities	19	-	2.093.694
Deferred income	13	131.089.209	176.292.725
Government grants		2.052.234	2.056.306
Short term provisions	12	336.494.609	276.300.155
Provisions for employee benefits		8.783.755	6.651.542
Other provisions		327.710.854	269.648.613
Other current liabilities	13	1.449.196	1.978.569
Total current liabilities		1.000.541.500	784.889.698
Non-current liabilities			
Financial liabilities	5	418.773.736	509.295.075
Government grants		4.584.824	5.570.470
Long term provisions	12	35.308.547	31.755.416
Provision for employee benefits		24.189.194	22.321.490
Other provisions		11.119.353	9.433.926
Deferred income	13	17.544.090	28.312.416
Total non-current liabilities		476.211.197	574.933.377
Equity			
Paid-in share capital		24.000.000	24.000.000
Inflation adjustment on share capital		52.743.030	52.743.030
Restricted reserves		54.014.610	46.838.147
Accumulated other comprehensive income and expense that will not be classified to statement of profit or loss		(3.946.741)	(3.859.283)
Currency translation differences		(116.846)	-
Retained earnings		46.131.822	46.011.054
Net profit for the period		15.738.317	79.506.151
Total equity		188.564.192	245.239.099
Total liabilities and equity		1.665.316.889	1.605.062.174

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

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

CONSOLIDATED BALANCE SHEET AS OF 30 JUNE 2016

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

	Notes	Reviewed		Reviewed	
		1 January - 30 June 2016	1 April - 30 June 2016	1 January - 30 June 2015	1 April - 30 June 2015
Net Sales	14	693.670.273	334.838.069	543.821.939	295.064.041
Cost of Sales (-)	14	(518.673.166)	(251.646.156)	(420.549.855)	(229.410.715)
GROSS PROFIT		174.997.107	83.191.913	123.272.084	65.653.326
Marketing expenses (-)	15	(85.877.441)	(39.987.298)	(74.311.613)	(39.795.986)
General administrative expenses (-)	15	(29.040.106)	(14.034.382)	(23.981.870)	(11.848.660)
Research and development expenses (-)	15	(16.242.465)	(6.794.436)	(17.196.785)	(9.039.885)
Other operating income	16	30.485.005	(29.826.508)	38.613.889	16.106.638
Other operating expenses (-)	16	(19.319.657)	35.563.615	(32.463.149)	(5.705.043)
OPERATING PROFIT		55.002.443	28.112.904	13.932.556	15.370.390
Income from investing activities		11.738	3.982	1.434.483	9.370
Expense from investing activities (-)		-	-	-	-
OPERATING INCOME BEFORE FINANCIAL EXPENSES		55.014.181	28.116.886	15.367.039	15.379.760
Financial income	17	4.666.331	2.792.477	4.717.245	2.672.310
Financial expense (-)	18	(40.989.261)	(21.935.497)	(24.583.193)	(17.323.953)
INCOME/(LOSS) BEFORE TAX		18.691.251	8.973.866	(4.498.909)	728.117
Tax income/expense from continued operations					
Current tax income/(expense)	19	2.288.048	1.481.219	(356.058)	1.034.741
Deferred tax (expense)/income	19	(5.240.982)	(2.883.510)	4.858.806	461.846
PROFIT FOR THE PERIOD		15.738.317	7.571.575	3.839	2.224.704
Remeasurement (losses)/gains on defined benefit plans		(109.323)	116.408	(718.073)	217.746
Deferred tax income/(expense)		21.865	(23.281)	143.615	(43.549)
Currency translation differences		(54.056)	(70.608)	-	-
Other comprehensive (loss)/income		(141.514)	22.519	(574.458)	174.197
Total comprehensive income/(loss)		15.596.803	7.594.094	(570.619)	2.398.901
Earnings per share (Piaster)	20	0,066	0,032	0,000	0,009

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

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

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

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

	Paid in share capital	Inflation adjustments	Restricted reserves	Accumulated other comprehensive income and expense that will not be reclassified to statement of profit or loss		Retained earnings	Net income for the period	Total equity
				Remeasurement losses on defined benefit plans	Currency translation differences			
1 January 2015	24.000.000	52.743.030	38.958.147	(5.264.855)	-	61.119.856	72.771.198	244.327.376
Transfers	-	-	7.880.000	-	-	64.891.198	(72.771.198)	-
Dividends paid	-	-	-	-	-	(80.000.000)	-	(80.000.000)
Total comprehensive income	-	-	-	(574.458)	-	-	3.839	(570.619)
30 June 2015	24.000.000	52.743.030	46.838.147	(5.839.313)	-	46.011.054	3.839	163.756.757
1 January 2016	24.000.000	52.743.030	46.838.147	(3.859.283)	-	46.011.054	79.506.151	245.239.099
Subsidiary subject to consolidation (Note 1)	-	-	96.463	-	(62.790)	(2.715.274)	2.409.891	(271.710)
1 January 2016 revised	24.000.000	52.743.030	46.934.610	(3.859.283)	(62.790)	43.295.780	81.916.042	244.967.389
Transfers	-	-	7.080.000	-	-	74.836.042	(81.916.042)	-
Dividends paid	-	-	-	-	-	(72.000.000)	-	(72.000.000)
Total comprehensive income	-	-	-	(87.458)	(54.056)	-	15.738.317	15.596.803
30 June 2016	24.000.000	52.743.030	54.014.610	(3.946.741)	(116.846)	46.131.822	15.738.317	188.564.192

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

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE PERIOD 1 JANUARY - 30 JUNE 2016

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

	Notes	(Reviewed) 1 January - 30 June 2016	(Reviewed) 1 January - 30 June 2015
CASH FLOWS FROM OPERATING ACTIVITIES		(16.808.821)	(29.524.007)
Net profit for the period		15.738.317	3.839
Adjustments to reconcile income before taxes to net cash flows from operating activities:		76.345.874	55.841.312
Depreciation and amortization	10, 11	22.915.378	23.725.106
Adjustments in relation to impairment:		(55.910)	3.387.739
- Provision for doubtful receivables	7	182.247	1.821.576
- Provision for inventories	8	(238.157)	1.566.163
Adjustments in relation to provision:		18.642.973	24.256.179
- Provision for employee benefits	12	4.279.758	3.171.342
- Warranty provision expenses	12	14.363.215	21.084.837
Adjustments in relation to interest income and expenses:		34.477.027	14.140.863
- Interest income on time deposits	17	(332.670)	(323.969)
- Interest expense on borrowings	18	34.809.697	14.464.832
Adjustments in relation to unrealised foreign exchange gains and losses		372.550	734.200
Adjustments in relation to fair value gains and losses		5.594	(8.968.292)
- Fair value losses/(gains) on financial derivative instruments, net		5.594	(8.968.292)
Adjustments in relation to gains or losses on sales of property, plant and equipment		(11.738)	(1.434.483)
- Gain on sale of property, plant and equipments		(11.738)	(1.434.483)
Changes in net working capital		(94.082.108)	(76.447.087)
Change in trade receivables		95.684.138	(19.799.180)
Change in due from customers on contract works		(12.140.434)	(31.642.344)
Change in inventories		(96.522.027)	(74.382.387)
Change in trade payables		(15.412.788)	60.794.760
Other changes		(65.690.997)	(11.417.936)
- Changes in other operating assets		(67.763.716)	(74.700.144)
- Changes in other operating liabilities		2.072.719	63.282.208
Cash flows from operations		(1.997.917)	(20.601.936)
Payments in relation to employee benefits	12	(2.521.377)	(2.605.856)
Payments in relation to other provisions	12	(14.741.386)	(15.683.169)
Deductions/(payments) in relation to income tax		2.288.048	(356.058)
Other cash collections/(payments)		163.811	9.723.012
CASH FLOWS FROM INVESTING ACTIVITIES		(31.809.767)	(22.038.408)
Proceeds from sale of property, plant and equipment and intangible assets		391.757	2.471.490
- Proceeds from sale of property, plant and equipment		391.757	2.471.490
Cash outflows due to purchase of property, plant and equipment and intangible assets		(32.201.524)	(24.509.898)
- Purchase of property, plant and equipment	10	(6.392.035)	(2.886.716)
- Purchase of intangible assets	11	(25.809.489)	(21.623.182)
CASH FLOWS FROM FINANCING ACTIVITIES		21.891.630	15.318.543
Cash inflow due to borrowings		478.499.349	375.005.533
- Proceeds from bank borrowings		478.499.349	375.005.533
Cash outflow due to repayment of borrowings		(363.613.836)	(276.440.248)
- Repayments of borrowings		(363.613.836)	(276.440.248)
Dividends paid		(72.000.000)	(80.000.000)
Interest paid		(21.326.553)	(3.570.711)
Interest received		332.670	323.969
NET DECREASE IN CASH AND CASH EQUIVALENTS BEFORE THE EFFECT OF CURRENCY TRANSLATION DIFFERENCES		(26.726.958)	(36.243.872)
Currency translation difference on cash and cash equivalents		(54.056)	-
NET DECREASE IN CASH AND CASH EQUIVALENTS		(26.781.014)	(36.243.872)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		62.959.766	44.527.697
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		36.178.752	8.283.825

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

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS AT 30 JUNE 2016

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

NOTE 1 - GROUP’S ORGANIZATION AND NATURE OF OPERATIONS

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

The Company operates in the automotive industry and off road vehicles, armored vehicles, minibuses, midibuses and autobuses, trailers, semi-trailers, light truck and cross-country comprises the majority of its production.

The registered addresses of the Company are as follows:

Headquarters:

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

Plant:

Atatürk Cad. No: 6
54580 Arifiye / Sakarya

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

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

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

On 13 April 2016, the Company management has decided to initiate the establishment of a subsidiary named “Otokar Land Systems LLC” in United Arab Emirates with a capital of Arab Emirates Dirham (“AED”) 50.000. The establishment process is not finalised as of the date of this consolidated financial statements.

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

The Group has 2.455 personnel as of 30 June 2016 (31 December 2015: 2.105).

Condensed consolidated interim financial statements for the six-month period ended 30 June 2015 were authorized for issue and signed with the approval of the Internal Audit Committee by the Board of Directors of the Company on 4 August 2016. The accompanying condensed consolidated interim financial statements may be amended by the Board of Directors and General Assembly.

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS AT 30 JUNE 2016

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

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

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

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

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

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

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

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

NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

2.1 Basis of Presentation

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

The condensed consolidated interim financial statements for the six-month period ended 30 June 2016 were prepared in accordance with TAS 34 Interim Financial Reporting. The condensed consolidated interim financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual financial statements at 31 December 2015.

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.

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS AT 30 JUNE 2016

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

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

The condensed consolidated financial statements are prepared based on the statutory records, which are maintained under the historical cost convention except for financial derivative instruments which are carried at their fair values with adjustments and reclassifications for the purpose of fair presentation in accordance with TAS/TFRS and interpretations regarding these POA.

Functional and presentation currency

Functional and presentation currency of the Group is TL.

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

2.2 Group accounting

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

Subsidiaries

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

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

Disposal of a subsidiary

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

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS AT 30 JUNE 2016

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

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

2.3 Significant changes in accounting estimates and errors

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

2.4 Changes in accounting policies

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

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

2.5 Changes in standards and interpretations

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

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

a. Standards, amendments and interpretations applicable as at 30 June 2016

- Amendment to IFRS 11, 'Joint arrangements' on acquisition of an interest in a joint operation, effective from annual periods beginning on or after 1 January 2016. This amendment adds new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business. The amendments specify the appropriate accounting treatment for such acquisitions.
- Amendments to IAS 16 'Property, plant and equipment', and IAS 41, 'Agriculture', regarding bearer plants, effective from annual periods beginning on or after 1 January 2016. These amendments change the financial reporting for bearer plants, such as grape vines, rubber trees and oil palms. It has been decided that bearer plants should be accounted for in the same way as property, plant and equipment because their operation is similar to that of manufacturing. Consequently, the amendments include them within the scope of IAS 16, instead of IAS 41. The produce growing on bearer plants will remain within the scope of IAS 41.

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NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS AT 30 JUNE 2016

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

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

- Amendment to IAS 16, 'Property, plant and equipment' and IAS 38, 'Intangible assets', on depreciation and amortisation, effective from annual periods beginning on or after 1 January 2016. In this amendment the it has clarified that the use of revenue based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. It is also clarified that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset.
 - IFRS 14 'Regulatory deferral accounts', effective from annual periods beginning on or after 1 January 2016. IFRS 14, 'Regulatory deferral accounts' permits first-time adopters to continue to recognise amounts related to rate regulation in accordance with their previous GAAP requirements when they adopt IFRS. However, to enhance comparability with entities that already apply IFRS and do not recognise such amounts, the standard requires that the effect of rate regulation must be presented separately from other items.
 - Amendments to IAS 27, 'Separate financial statements' on the equity method, effective from annual periods beginning on or after 1 January 2016. These amendments allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements.
 - Amendment to IFRS 10 'Consolidated financial statements' and IAS 28, 'Investments in associates and joint ventures', effective from annual periods beginning on or after 1 January 2016. These amendments clarify the application of the consolidation exception for investment entities and their subsidiaries.
 - Annual improvements 2014, effective from annual periods beginning on or after 1 January 2016. These set of amendments impacts 4 standards:
 - IFRS 5, 'Non-current assets held for sale and discontinued operations' regarding methods of disposal.
 - IFRS 7, 'Financial instruments: Disclosures', (with consequential amendments to IFRS 1) regarding servicing contracts.
 - IAS 19, 'Employee benefits' regarding discount rates.
 - IAS 34, 'Interim financial reporting' regarding disclosure of information..
 - Amendment to IAS 1, 'Presentation of financial statements' on the disclosure initiative, effective from annual periods beginning on or after 1 January 2016, these amendments are as part of the IASB initiative to improve presentation and disclosure in financial reports.
- b. Standards, amendments and interpretations effective after 30 June 2016:**
- Amendments to IAS 7 'Statement of cash flows' on disclosure initiative, effective from annual periods beginning on or after 1 January 2017. These amendments introduce an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities. The amendment is part of the IASB's Disclosure Initiative, which continues to explore how financial statement disclosure can be improved.

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS AT 30 JUNE 2016

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

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

- Amendments IAS 12 ‘Income Taxes’, effective from annual periods beginning on or after 1 January 2017. The amendments clarify the accounting for deferred tax where an asset is measured at fair value and that fair value is below the asset’s tax base. It also clarify certain other aspects of accounting for deferred tax assets.
- Amendments to IFRS 2, ‘Share based payments’ on clarifying how to account for certain types of share-based payment transactions, effective from annual periods beginning on or after 1 January 2018. This amendment clarifies the measurement basis for cash-settled, share-based payments and the accounting for modifications that change an award from cash-settled to equity-settled. It also introduces an exception to the principles in IFRS 2 that will require an award to be treated as if it was wholly equity-settled, where an employer is obliged to withhold an amount for the employee’s tax obligation associated with a share-based payment and pay that amount to the tax authority.
- IFRS 15 ‘Revenue from contracts with customers’, effective from annual periods beginning on or after 1 January 2018. IFRS 15, ‘Revenue from contracts with customers’ is a converged standard from the IASB and FASB on revenue recognition. The standard will improve the financial reporting of revenue and improve comparability of the top line in financial statements globally.
- Amendment to IFRS 15, ‘Revenue from contracts with customers’, effective from annual periods beginning on or after 1 January 2018. These amendments comprise clarifications of the guidance on identifying performance obligations, accounting for licences of intellectual property and the principal versus agent assessment (gross versus net revenue presentation). New and amended illustrative examples have been added for each of those areas of guidance. The IASB has also included additional practical expedients related to transition to the new revenue standard.
- IFRS 9 ‘Financial instruments’, effective from annual periods beginning on or after 1 January 2018. This standard replaces the guidance in IAS 39. It includes requirements on the classification and measurement of financial assets and liabilities; it also includes an expected credit losses model that replaces the current incurred loss impairment model.
- IFRS 16 ‘Leases’, effective from annual periods beginning on or after 1 January 2019, This standard replaces the current guidance in IAS 17 and is a farreaching change in accounting by lessees in particular. Under IAS 17, lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 16 now requires lessees to recognise a lease liability reflecting future lease payments and a ‘right-of-use asset’ for virtually all lease contracts. The IASB has included an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees. For lessors, the accounting stays almost the same. However, as the IASB has updated the guidance on the definition of a lease (as well as the guidance on the combination and separation of contracts), lessors will also be affected by the new standard. At the very least, the new accounting model for lessees is expected to impact negotiations between lessors and lessees. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

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NOTE 3 - SEGMENT REPORTING

Since the Group does not have different geographical and operational units, the Group does not prepare segment reporting and follows financial statements by one operating unit.

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

NOTE 4 - CASH AND CASH EQUIVALENTS

	30 June 2016	31 December 2015
Banks		
- demand deposits	18.223.355	15.239
- time deposits	17.838.787	56.506.362
Cheques and notes receivable	55.853	2.119.198
Other	60.757	95.266
	36.178.752	58.736.065

As of 30 June 2016, TL 13.378.787 of time deposits is denominated in foreign currency and its effective annual interest rate is 0,40% and has a maturity of 1 day. Remaining balance of TL 4.460.000 of time deposits' effective annual interest rate is 9% and has a maturity of 1 day.

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

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

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

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NOTE 5 - BORROWINGS

	Maturities	Interest rate (%)	30 June 2016 TL
Short term bank borrowings (*)			
Denominated in TL	1 July 2016- 22 June 2017	0,00-12,60	171.692.020
Denominated in USD	1 July 2016	2,60	8.680.783
Denominated in EUR	1 July 2016	2,00	19.226.370
			199.599.173
Principals and interest accruals on the short-term portion of long-term borrowings (*)			
Denominated in TL		11,55-15,70	125.198.423
Denominated in EUR		2,65	447.710
			125.646.133
Long term bank borrowings (*) (**)			
Denominated in TL	29 September 2017- 3 September 2018	12,34-15,70	322.203.753
Denominated in EUR	3 July 2017- 21 September 2017	2,65-2,90	96.569.983
			418.773.736
31 December 2015			
	Maturities	Interest rate (%)	TL
Short term bank borrowings (*)			
Denominated in TL (***)	4 January 2016	0,00	375.402
			375.402
Principals and interest accruals on the short-term portion of long-term borrowings (*)			
Denominated in TL		8,09-14,65	105.178.069
Denominated in EUR		2,65	429.290
			105.607.359
Long term bank borrowings (*) (**)			
Denominated in TL	14 April 2017- 3 September 2018	11,55-14,65	351.115.051
Denominated in EUR	10 February 2017- 21 September 2017	2,65-2,90	158.180.024
			509.295.075

(*) Bearing fixed interest rate.

(**) Weighted average maturity days of long-term borrowings are 684 days at 30 June 2016 (31 December 2015: 661 days).

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

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

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NOTE 6 - DERIVATIVE FINANCIAL INSTRUMENTS

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

	Contract amount	Current period contract maturity	Fair value Liability
30 June 2016:			
Forward transactions	35.827.769	13 July 2016	(22.769)
Short-term derivative financial instruments	35.827.769		(22.769)
Total derivative financial instruments	35.827.769		(22.769)

	Contract amount	Current period contract maturity	Fair value Liability
31 December 2015:			
Forward transactions	55.435.650	7 January 2016- 14 January 2016	146.636
Short-term derivative financial instruments	55.435.650		146.636
Total derivative financial instruments	55.435.650		146.636

NOTE 7 - TRADE RECEIVABLES AND PAYABLES

Trade receivables

	30 June 2016	31 December 2015
Trade receivables, net	176.193.459	113.905.306
Notes receivables, net	103.226.796	148.699.225
	279.420.255	262.604.531
Less: provision for doubtful receivables	(25.607.534)	(25.056.794)
Short-term trade receivables	253.812.721	237.547.737
Trade receivables from related parties	13.140.346	106.906.185
Short-term trade receivables	266.953.067	344.453.922
Long-term trade receivables, net	60.079.990	87.065.478
Long-term notes receivable, net	10.755.575	13.230.367
Long-term trade receivables	70.835.565	100.295.845

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

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NOTE 7 - TRADE RECEIVABLES AND PAYABLES (Continued)

Guarantees received for trade receivables

Receivables of the Group are mainly composed of minibus and bus sales to dealers and trailer and armored vehicle sales. As of 30 June 2016, the total trade receivable from dealers amounting to TL 83.523.044 (31 December 2015: TL 109.952.277), after provision provided for doubtful receivables, has been secured by mortgages and guarantees at the amount of TL 82.399.305 (31 December 2015: TL 108.683.872).

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

30 June 2016	Trade receivables
1- 30 day past due	-
1- 3 month past due	-
3- 12 month past due	-
1- 5 year past due	188.827
Over 5 year past due	-
	188.827
Amount secured with guarantees	188.827
31 December 2015	Trade receivables
1- 30 day past due	-
1- 3 month past due	-
3- 12 month past due	-
1- 5 year past due	187.248
Over 5 year past due	-
	187.248

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

The movement of the provision for doubtful receivables for the six-month period ended 30 June 2016 and 2015 are as follows:

	2016	2015
As of 1 January	25.056.794	22.526.772
Impact of consolidation (*)	916.092	-
Collection	(547.599)	(284.198)
Currency translation difference	7.726	-
Increase during the period	174.521	1.821.576
As of 30 June	25.607.534	24.064.150

(*) Please see Note 2 for details.

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NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS AT 30 JUNE 2016

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NOTE 7 - TRADE RECEIVABLES AND PAYABLES (Continued)

Trade payables

	30 June 2016	31 December 2015
Trade payables, net	149.255.247	138.397.815
Notes payables, net	316.950	252.300
Short-term other trade payables	149.572.197	138.650.115
Trade payables to related parties	3.613.597	27.169.350
Short-term trade payables	153.185.794	165.819.465

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

NOTE 8 - INVENTORIES

	30 June 2016	31 December 2015
Raw material	192.692.360	127.778.773
Semi-finished goods	61.489.949	14.932.656
Finished goods	141.651.057	148.982.557
Merchandise	69.136.888	58.112.743
Goods in transit	69.219.853	78.964.178
Impairment for inventories (*)	(557.206)	(795.363)
	533.632.901	427.975.544

(*) TL 180.493 of impairment is related to finished goods (31 December 2015: TL 118.113) and TL 376.713 is related to merchandises (31 December 2015: TL 677.250). The impairment has been accounted for under cost of sales.

NOTE 9 - DUE FROM CUSTOMERS ON CONTRACTS WORKS

As of 30 June 2016, receivable from uncompleted customer contracts is TL 200.418.575 (31 December 2015: TL 188.278.141) after offsetting with short term advances received.

As of 30 June 2016, the short term advances received by the Group related to ongoing projects which amounts to TL 5.526.713 was included in deferred revenues in the consolidated financial statements (31 December 2015: TL 79.705.827). Remaining balance amounting to TL 103.548.268 in deferred income is composed of other advance received from customers (31 December 2015: TL 74.756.786) and other payables as amounting to TL 22.014.228 (31 December 2015: TL 21.830.112).

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NOTE 10 - PROPERTY, PLANT AND EQUIPMENT

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

	1 January 2016	Consolidation impact (*)	Additions	Currency translation difference	Disposals	Transfers	30 June 2016
Cost:							
Land	37.456.746	-	-	-	-	-	37.456.746
Land improvements	11.952.934	-	-	-	-	-	11.952.934
Buildings	60.539.783	-	-	-	-	-	60.539.783
Machinery and equipment	99.172.937	504.742	1.351.360	4.257	-	46.357	101.079.653
Motor vehicles	8.427.782	-	1.742.254	-	(392.640)	-	9.777.396
Furniture and fixtures	28.453.405	147.768	2.073.011	1.246	-	72.718	30.748.148
Leasehold improvements	2.099.062	-	7.314	-	(96.406)	-	2.009.970
Construction in process	964.394	-	1.212.593	-	-	(124.565)	2.052.422
	249.067.043	652.510	6.386.532	5.503	(489.046)	(5.490)	255.617.052
Accumulated depreciation:							
Land improvements	6.825.653	-	329.411	-	-	-	7.155.064
Buildings	34.712.739	-	1.402.952	-	-	-	36.115.691
Machinery and equipment	81.444.145	192.914	2.546.630	1.627	-	-	84.185.316
Motor vehicles	5.147.507	-	345.733	-	(54.547)	-	5.438.693
Furniture and fixtures	15.854.686	83.808	1.474.358	707	-	-	17.413.559
Leasehold improvements	1.324.974	-	167.853	-	(54.480)	-	1.438.347
	145.309.704	276.722	6.266.937	2.334	(109.027)	-	151.746.670
Net book value	103.757.339						103.870.382
	1 January 2015		Additions	Currency translation difference	Disposals	Transfers	30 June 2015
Cost:							
Land	37.456.746	-	-	-	-	-	37.456.746
Land improvements	11.621.866	-	-	-	-	-	11.621.866
Buildings	60.170.668	-	-	-	-	-	60.170.668
Machinery and equipment	108.389.066	1.145.360	-	(6.405.949)	326.599	-	103.455.076
Motor vehicles	9.169.102	304.541	-	(333.796)	-	-	9.139.847
Furniture and fixtures	34.568.907	784.589	-	(1.980.423)	55.439	-	33.428.512
Leasehold improvements	2.841.765	18.975	-	-	-	-	2.860.740
Construction in process	2.355.130	633.251	-	-	(817.680)	-	2.170.701
	266.573.250	2.886.716	-	(8.720.168)	(435.642)	-	260.304.156
Accumulated depreciation:							
Land improvements	6.176.947	323.893	-	-	-	-	6.500.840
Buildings	31.891.231	1.409.005	-	-	-	-	33.300.236
Machinery and equipment	87.805.628	2.762.639	-	(6.405.949)	-	-	84.162.318
Motor vehicles	4.737.483	371.413	-	(102.335)	-	-	5.006.561
Furniture and fixtures	21.866.594	1.149.563	-	(1.980.423)	-	-	21.035.734
Leasehold improvements	1.835.312	151.457	-	-	-	-	1.986.769
	154.313.195	6.167.970	-	(8.488.707)	-	-	151.992.458
Net book value	112.260.055						108.311.698

(*) Please see Note 2 for details.

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NOTE 10 - PROPERTY, PLANT AND EQUIPMENT (Continued)

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

	30 June 2016	30 June 2015
Research and development expenses	15.544.389	16.713.171
Cost of goods sold	2.295.549	2.450.395
Costs related to uncompleted contracts	1.876.723	1.502.595
Development projects in process	941.172	1.017.318
Depreciation on outstanding inventories	698.419	625.458
General administrative expenses	894.730	815.981
Selling and marketing expenses	662.062	600.188
Currency translation differences	2.334	-
	22.915.378	23.725.106

NOTE 11 - INTANGIBLE ASSETS

Movements of intangible assets and related accumulated amortisation for the six-month periods ended 30 June 2016 and 2015 are as follows:

	1 January 2016	Additions	Currency translation differences	Disposals	Transfers	30 June 2016
Cost:						
Other intangible assets	16.231.830	1.071.667	-	-	5.490	17.308.987
Development costs	242.619.897	-	-	-	2.728.143	245.348.040
Developments projects in progress	31.224.033	24.737.822	-	-	(2.728.143)	53.233.712
	290.075.760	25.809.489	-	-	5.490	315.890.739
Accumulated amortization:						
Other intangible assets	11.973.214	1.101.715	-	-	-	13.074.929
Development costs	122.683.468	15.544.392	-	-	-	138.227.860
	134.656.682	16.646.107	-	-	-	151.302.789
Net book value	155.419.078					164.587.950

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NOTE 11 - INTANGIBLE ASSETS (Continued)

	1 January 2016	Additions	Currency translation differences	Disposals	Transfers	30 June 2016
Cost:						
Other intangible assets	13.530.710	481.756	-	-	435.642	14.448.108
Development costs	186.078.994	-	-	(819.200)	16.324.516	201.584.310
Developments projects in progress	40.525.892	21.141.426	-	-	(16.324.516)	45.342.802
	240.135.596	21.623.182	-	(819.200)	435.642	261.375.220
Accumulated amortization:						
Other intangible assets	10.221.496	843.965	-	-	-	11.065.461
Development costs	88.466.591	16.713.171	-	(13.653)	-	105.166.109
	98.688.087	17.557.136	-	(13.653)	-	116.231.570
Net book value	141.447.509					145.143.650

NOTE 12 – PROVISIONS, CONTINGENT ASSETS AND LIABILITIES

Short-term provisions

	30 June 2016	31 December 2015
Provision for other costs (*)	288.849.667	233.120.100
Warranty provision	24.333.454	26.397.052
Provisions for employee benefits	8.783.755	6.651.542
Foundation employer’s share of social security premium	2.925.000	2.925.000
Provision for license costs	554.280	1.316.079
Provision for legal cases	100.000	100.000
Other	10.948.453	5.790.382
	336.494.609	276.300.155

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

Long-term provisions

	30 June 2016	31 December 2015
Warranty provision	11.119.353	9.433.926
	11.119.353	9.433.926

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

Warranty provision

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

The movement of provision for warranty provision for the six-month periods ended at 30 June 2016 and 2015 are as follows:

	2016	2015
As of 1 January	35.830.978	22.615.088
Charge for the period	14.363.215	21.084.837
Payments	(14.741.386)	(15.683.169)
As of 30 June	35.452.807	28.016.756

Provision for employee benefits

	30 June 2016	31 December 2015
Provision for employment termination benefits	24.189.194	22.321.490
Provision for unused vacation	8.783.755	6.651.542
	32.972.949	28.973.032

Employment termination benefits

The amount payable consists of one month’s salary limited to a maximum of TL 4.093 for each year of service as of 30 June 2016 (31 December 2015: TL 3.828).

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

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

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

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

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

	30 June 2016	31 December 2015
Net discount rate (%)	4,60	4,60
Turnover rate to estimate the probability of retirement (%)	97,65	97,60

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

The movement of provision for employment termination benefits is as follows:

	2016	2015
1 January	22.321.489	20.969.191
Interest expense	1.010.047	948.856
Current year charge	3.269.712	2.222.486
Remeasurement losses	109.323	718.073
Payments	(2.521.377)	(2.605.856)
30 June	24.189.194	22.252.750

Provision for unused vacation

The movement of provision for unused vacation is as follows:

	2016	2015
1 January	6.651.542	5.381.838
Current year charge	2.132.213	1.899.362
30 June	8.783.755	7.281.200

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

Commitments and contingencies

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

	30 June 2016	31 December 2015
a. Total amount of guarantees, pledges and mortgages given the name of legal entity	1.798.242.049	1.226.251.723
b. Total amount of guarantees, pledges and mortgages given in favour of the parties which are included in the scope of full consolidation	-	-
c. Total amount of guarantees, pledges and mortgages given to third parties for their liabilities in the purpose of conducting the ordinary operations	-	-
d. Total amount of other guarantees, pledges and mortgages	-	-
	1.798.242.049	1.226.251.723

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

	30 June 2016		31 December 2015	
	Original currency	TL equivalent	Original currency	TL equivalent
USD	294.079.024	850.947.063	293.815.364	854.297.554
EUR	232.014.362	743.466.823	54.315.986	172.594.478
TL	199.537.402	199.537.402	199.359.691	199.359.691
GBP	1.109.010	4.290.761	-	-
	1.798.242.049		1.226.251.723	

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

	30 June 2016	31 December 2015
Guarantee letters given		
Undersecretariat of Ministry of Defense	934.049.534	751.262.190
Other	864.192.515	474.989.533
	1.798.242.049	1.226.251.723

Guarantee Letters

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

	30 June 2016	31 December 2015
Bank letters of guarantees (*)	1.798.242.049	1.226.251.723
	1.798.242.049	1.226.251.723

(*) Bank letters of guarantees amounting to TL 720.055.670 were provided to Secretariat of Ministry of Defense for Altay Project (31 December 2015: TL 723.539.489).

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

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

	30 June 2016	31 December 2015
Bank letters of guarantee (**)	493.925.630	474.011.532
Guarantee notes	16.073.836	17.653.397
Mortgages received	60.000	582.000
	510.059.466	492.246.929

(**) Bank letters of guarantee amounting to TL 235.253.134 were obtained from the sub-contractors for Altay Project (31 December 2015: TL 236.503.977).

Contingent asset

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

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

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

a) Prepaid expenses:

	30 June 2016	31 December 2015
Advances given	143.508.115	119.060.514
Prepaid expenses	6.111.237	3.631.034
	149.619.352	122.691.548

b) Other current assets:

	30 June 2016	31 December 2015
Value added tax receivables	105.107.945	62.891.217
Other	1.000.271	2.795.945
	106.108.216	65.687.162

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS AT 30 JUNE 2016

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

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

c) Deferred revenues:

Short-term deferred revenues	30 June 2016	31 December 2015
Advances received	109.074.981	154.462.613
Deferred maintenance revenues (*)	22.014.228	21.830.112
	131.089.209	176.292.725
Long-term deferred revenues	30 June 2016	31 December 2015
Deferred maintenance revenues (*)	17.544.090	28.312.416
	17.544.090	28.312.416

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

d) Employee benefits obligation:

	30 June 2016	31 December 2015
Social security payables	5.473.071	4.060.123
Payables to employees	2.211.325	9.776.832
Taxes and funds payable	1.781.342	4.300.629
	9.465.738	18.137.584

e) Other current liabilities:

	30 June 2016	31 December 2015
Deferred special consumption tax	548.910	638.813
Taxes and funds payable	335.628	915.723
Other	564.658	424.033
	1.449.196	1.978.569

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS AT 30 JUNE 2016

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

NOTE 14 - SALES AND COST OF SALES

Net sales

	1 January - 30 June 2016	1 April - 30 June 2016	1 January - 30 June 2015	1 April - 30 June 2015
Domestic sales	494.775.663	249.601.599	415.295.609	221.000.752
Export sales	204.248.689	87.717.280	129.559.482	74.516.548
Brüt satışlar	699.024.352	337.318.879	544.855.091	295.517.300
Less: sales discounts and sales returns	(5.354.079)	(2.480.810)	(1.033.152)	(453.259)
Net sales	693.670.273	334.838.069	543.821.939	295.064.041

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

	1 January - 30 June 2016	1 April - 30 June 2016	1 January - 30 June 2015	1 April - 30 June 2015
Armored vehicle	281.668.836	121.964.438	68.265.571	39.443.231
Commercial vehicle	242.954.255	128.527.918	312.106.685	179.285.761
Other (*)	169.047.182	84.345.713	163.449.683	76.335.049
	693.670.273	334.838.069	543.821.939	295.064.041

(*) TL 90.395.508 of the amount is related to revenues from uncompleted contracts (30 June 2015: TL 86.096.579 and the remaining amount of TL 78.651.674 is revenues from sales of spare parts, maintenance services and other sales (30 June 2015: TL 77.353.104).

Cost of sales

	1 January - 30 June 2016	1 April - 30 June 2016	1 January - 30 June 2015	1 April - 30 June 2015
Cost of finished goods sold	486.161.365	236.471.781	390.655.702	212.841.490
Cost of merchandise goods sold	32.511.801	15.174.375	29.894.153	16.569.225
	518.673.166	251.646.156	420.549.855	229.410.715

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS AT 30 JUNE 2016

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

NOTE 15 - OPERATING EXPENSES

	1 January - 30 June 2016	1 April - 30 June 2016	1 January - 30 June 2015	1 April - 30 June 2015
Marketing and selling	(85.877.441)	(39.987.298)	(74.311.613)	(39.795.986)
General and administrative	(29.040.106)	(14.034.382)	(23.981.870)	(11.848.660)
Research and development	(16.242.465)	(6.794.436)	(17.196.785)	(9.039.885)
	(131.160.012)	(60.816.116)	(115.490.268)	(60.684.531)

NOTE 16 – OTHER OPERATING INCOME AND EXPENSES

	1 January - 30 June 2016	1 April - 30 June 2016	1 January - 30 June 2015	1 April - 30 June 2015
Other operating income				
Foreign exchange gains on operating activities	15.040.980	(37.083.254)	8.169.071	6.016.741
Revenue from charge of due date receivables	4.826.380	2.211.089	3.746.410	1.560.317
Gain on forward transactions	4.381.779	1.772.966	22.840.957	6.928.885
Gain on inventives	1.028.153	514.076	1.016.923	508.462
Other	5.207.713	2.758.615	2.840.528	1.092.233
	30.485.005	(29.826.508)	38.613.889	16.106.638

	1 January - 30 June 2016	1 April - 30 June 2016	1 January - 30 June 2015	1 April - 30 June 2015
Other operating expenses				
Foreign exchange loss on operating activities	(14.757.763)	37.516.584	(16.710.518)	3.416.067
Loss on forward transactions	(4.387.373)	(1.975.951)	(13.872.665)	(7.990.055)
Expense on provision for uncollectible receivables	(174.521)	22.982	(1.821.576)	(1.121.463)
Other	-	-	(58.390)	(9.592)
	(19.319.657)	35.563.615	(32.463.149)	(5.705.043)

NOTE 17 - FINANCIAL INCOME

	1 January - 30 June 2016	1 April - 30 June 2016	1 January - 30 June 2015	1 April - 30 June 2015
Foreign exchange gains on borrowings	2.257.850	2.257.850	1.531.025	1.345.750
Interest income on time deposits	2.075.811	422.215	2.862.251	1.228.828
Foreign exchange gains on deposits	332.670	112.412	323.969	97.732
	4.666.331	2.792.477	4.717.245	2.672.310

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NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS AT 30 JUNE 2016

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

NOTE 18 - FINANCIAL EXPENSES

	1 January – 30 June 2016	1 April – 30 June 2016	1 January – 30 June 2015	1 April – 30 June 2015
Interest expense on bank borrowings	(34.809.697)	(19.505.004)	(14.464.832)	(8.411.366)
Foreign exchange losses on borrowings	(3.499.400)	(2.195.400)	(5.290.051)	(5.096.550)
Foreign exchange losses on deposits	(2.550.207)	(134.191)	(4.828.310)	(3.816.037)
Other	(129.957)	(100.902)	-	-
	(40.989.261)	(21.935.497)	(24.583.193)	(17.323.953)

NOTE 19 - TAX ASSETS AND LIABILITIES

In Turkey, the corporation tax rate is 20% (2015: 20%). Corporate tax returns are required to be filed by the twenty-fifth day of the fourth month following the balance sheet date and taxes must be paid in one installment by the end of the fourth month. The tax legislation provides for a temporary tax of 20% to be calculated and paid based on earnings generated for each quarter. The amounts thus calculated and paid are offset against the final corporate tax liability for the year.

As of 30 June 2016 and 31 December 2015, income tax payables net of prepaid taxes in the balance sheet are as follows:

	30 June 2016	31 December 2015
Income tax payable	-	6.844.679
Less-prepaid tax	-	(4.750.985)
	-	2.093.694

The breakdown of total tax expense for the six-month periods ended 30 June 2016 and 2015 are as follows:

	1 January – 30 June 2016	1 January – 30 June 2015
Current tax charge	2.288.048	(356.058)
Deferred tax income charged to:		
- Statement of profit or loss	(5.240.982)	4.858.806
- Statement of other comprehensive income	21.865	143.615
	(2.931.069)	4.646.363

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS AT 30 JUNE 2016

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

NOTE 19 - TAX ASSETS AND LIABILITIES (Continued)

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

	Cumulative temporary differences		Deferred tax assets/(liabilities)	
	30 June 2016	31 December 2015	30 June 2016	31 December 2015
Property, plant and equipment	(10.040.778)	(10.992.437)	1.473.139	1.282.807
Intangible assets	(36.623.047)	(26.282.311)	(7.324.609)	(5.256.462)
Deferred financial expense	(779.499)	(900.574)	(155.900)	(180.115)
Inventories	430.618	805.990	86.124	161.198
Warranty provision	35.452.807	35.830.978	7.090.561	7.166.196
Provision for employment termination benefits	24.189.194	22.321.490	4.837.839	4.464.298
Deferred financial income	6.534.974	7.933.694	1.306.995	1.586.739
Other provisions	21.190.601	14.808.853	4.238.120	2.961.770
Deferred maintenance income	39.558.318	50.142.528	7.911.664	10.028.506
Due from customers on contract works	61.234.327	69.655.901	12.246.865	13.931.180
Other	1.918.780	5.837.770	383.756	1.167.554
Deferred tax asset, net			32.094.554	37.313.671

The movement of deferred tax asset for the six-month periods ended 30 June 2016 and 2015 are as follows:

	1 January - 30 June 2016	1 January - 30 June 2015
1 January	37.313.671	39.335.574
Deferred tax income charged to:		
- Statement of profit or loss	(5.240.982)	4.858.806
- Statement of other comprehensive income	21.865	143.615
30 June	32.094.554	44.337.995

NOTE 20 - EARNINGS PER SHARE

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

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

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

	30 June 2016	30 June 2015
Net income attributable to shareholders (TL)	15.738.317	3.839
Weighted average number of issued shares	24.000.000.000	24.000.000.000
Earnings per share (Piaster)	0,066	0,000

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS AT 30 JUNE 2016

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

NOTE 21 - RELATED PARTY DISCLOSURES

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

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

Due from related parties	30 June 2016	31 December 2015
Ram Dış Ticaret A.Ş. (1) (*)	12.497.391	99.343.743
Ford Otomotiv Sanayi A.Ş. (2)	600.000	390.673
Türk Traktör ve Ziraat Makineleri A.Ş. (1)	42.955	413.262
Otokar Europe SAS (3)	-	6.742.250
Other (1)	-	16.257
	13.140.346	106.906.185

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

Due to related parties	30 June 2016	31 December 2015
Ram Dış Ticaret A.Ş. (1)	962.988	14.026.345
Setur Servis Turistik A.Ş. (1)	639.311	1.029.066
Eltek Elektrik Enerji İth. İhr. Top. Tic. A.Ş. (1)	483.061	492.530
Opet Fuchs Madeni Yağ A.Ş. (1)	414.857	398.558
Koç Holding A.Ş. (2)	246.865	5.992.481
Ram Sigorta Aracılık Hz. A.Ş. (1)	217.155	657.447
Zer Merkezi Hizmetler ve Ticaret A.Ş. (1)	215.768	3.244.001
Akpa Dayanıklı Tük. Paz. A.Ş. (1)	175.600	315.837
Otokoç Otomotiv Tic. ve San. A.Ş. (1)	120.476	269.119
Other (1)	137.516	743.966
	3.613.597	27.169.350

(1) Related parties of parent company of the Group

(2) Shareholder of the Group

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS AT 30 JUNE 2016

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

NOTE 21 - RELATED PARTY DISCLOSURES (Continued)

ii) Major sales and purchase transactions with related parties for the six-month periods ended at 30 June 2016 and 2015 are as follows:

Product sales and service revenue	1 January - 30 June 2016	1 April - 30 June 2016	1 January - 30 June 2015	1 April - 30 June 2015
Ram Dış Ticaret A.Ş. (1) (*)	103.626.992	22.580.234	91.520.731	56.629.768
Türk Traktör ve Ziraat Makineleri A.Ş. (1)	316.330	-	644.561	416.768
Ford Otomotiv Sanayi A.Ş. (2)	154.936	154.936	266	190
Aygaz A.Ş. (1)	2.668	-	307.596	307.596
Arçelik A.Ş. (1)	669	669	-	-
Otokoç Otomotiv Tic. ve San. A.Ş. (1)	-	-	589	589
Otokar Europe SAS (3)	-	-	7.833.948	4.140.808
	104.101.595	22.735.839	100.307.691	61.495.719

(*) 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.

Purchase of property, plant and equipment	1 January - 30 June 2016	1 April - 30 June 2016	1 January - 30 June 2015	1 April - 30 June 2015
Koç Sistem Bilgi ve İlt. Hizm. A.Ş. (1)	1.850.942	1.204.255	507.669	301.739
Zer Merkezi Hizmetler ve Ticaret A.Ş. (1)	106.512	69.439	64.951	41.243
Otokoç Otomotiv Tic. ve San. A.Ş. (1)	59.864	59.864	161.901	-
Arçelik A.Ş. (1)	10.284	9.068	11.780	9.103
Koç Üniversitesi Spor Kulübü Derneği (1)	820	820	-	-
	2.028.422	1.343.446	746.301	352.085

Inventories purchased	1 January - 30 June 2016	1 April - 30 June 2016	1 January - 30 June 2015	1 April - 30 June 2015
Zer Merkezi Hizmetler ve Ticaret A.Ş. (1)	8.817.842	5.268.867	7.789.847	4.385.355
Opet Fuchs Madeni Yağ A.Ş. (1)	985.212	578.721	1.156.922	618.716
Akpa Dayanıklı Tük.Paz. A.Ş. (1)	957.228	514.327	1.102.339	626.925
Opet Petrolcülük A.Ş.(1)	931.008	507.045	878.149	463.834
Ram Dış Ticaret A.Ş. (1)	825.854	326.250	2.543.568	1.634.032
Ford Otomotiv Sanayi A.Ş. (2)	35.943	35.943	2.752	911
Koçtaş Yapı Marketleri A.Ş.(1)	14.391	6.212	23.302	11.419
East Marine Denizcilik (1)	1.898	1.898	-	-
Arçelik A.Ş. (1)	1.204	487	2.783	1.754
	12.570.580	7.239.750	13.499.662	7.742.946

(1) Related parties of parent company of the Group

(2) Shareholders of the Group

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

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NOTE 21 - RELATED PARTY DISCLOSURES (Continued)

Services purchased	1 January - 30 June 2016	1 April - 30 June 2016	1 January - 30 June 2015	1 April - 30 June 2015
Ram Dış Ticaret A.Ş.(1)	17.019.659	7.961.338	6.352.426	4.371.292
Koç Holding A.Ş. (2) (*)	3.403.358	687.388	1.325.280	733.611
Setur Servis Turistik A.Ş. (1)	3.015.171	1.768.757	2.293.611	1.381.575
Eltek Elektrik Enerji İth. İhr. Top. Tic. A.Ş.(1)	2.350.351	1.202.499	2.372.597	1.163.672
Koç Sistem Bilgi ve İlt. Hizm. A.Ş. (1)	1.434.916	837.064	521.532	213.385
Otokoç Otomotiv Tic. ve San. A.Ş.(1)	1.275.906	691.310	998.708	651.096
Ram Sigorta Aracılık Hz. A.Ş. (1) (**)	1.221.220	85.900	-	-
Setair Hava Taşımacılığı ve Hizm. A.Ş. (1)	187.112	187.112	57.712	53.779
Other (1)	186.907	98.410	2.659.000	1.776.696
	30.094.600	13.519.778	16.580.866	10.345.106

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

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

Banks deposits	30 June 2016	31 December 2015
Yapı ve Kredi Bankası A.Ş. (1)		
- Demand deposits	3.395	2.931
- Time deposits	13.378.787	33.072.560
	13.382.182	33.075.491
Checks and notes at banks	30 June 2016	31 December 2015
Yapı ve Kredi Bankası A.Ş. (1)	12.756.058	25.716.139
	12.756.058	25.716.139
Borrowings	30 June 2016	31 December 2015
Yapı ve Kredi Bankası A.Ş. (1)	42.069.886	40.176.227
	42.069.886	40.176.227

(1) Related parties of parent company of the Group

(2) Shareholders of the Group

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NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS AT 30 JUNE 2016

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

NOTE 21 - RELATED PARTY DISCLOSURES (Continued)

Other income and expenses for the six-month periods ended at 30 June 2016 and 2015:

	1 January - 30 June 2016	1 April - 30 June 2016	1 January - 30 June 2015	1 April - 30 June 2015
Foreign exchange gain on trade receivables and payables				
Ram Dış Ticaret A.Ş. (1)	1.845.983	1.723.330	818.244	777.120
Yapı Kredi Faktoring A.Ş. (1)	198.083	595	-	-
Other (1)	31.558	6.313	110.471	102.478
	2.075.624	1.730.238	928.715	879.598

	1 January - 30 June 2016	1 April - 30 June 2016	1 January - 30 June 2015	1 April - 30 June 2015
Foreign exchange loss on trade receivables and payables				
Yapı Kredi Faktoring A.Ş. (1)	5.668.096	5.668.096	-	-
Ram Dış Ticaret A.Ş. (1)	1.366.049	868.850	945.241	272.210
Other (1)	70.820	15.064	192.067	52.290
	7.104.965	6.552.010	1.137.308	324.500

Financial income and expenses for the six-month periods ended at 30 June 2016 and 2015:

	1 January - 30 June 2016	1 April - 30 June 2016	1 January - 30 June 2015	1 April - 30 June 2015
Interest income				
Yapı ve Kredi Bankası A.Ş. (1)	101.691	12.326	14.135	13.197
	101.691	12.326	14.135	13.197

	1 January - 30 June 2016	1 April - 30 June 2016	1 January - 30 June 2015	1 April - 30 June 2015
Interest expense				
Yapı ve Kredi Bankası A.Ş. (1)	2.218.926	1.126.975	3.526.134	1.849.964
	2.218.926	1.126.975	3.526.134	1.849.964

(1) Related parties of parent company of the Group

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS AT 30 JUNE 2016

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NOTE 21 - RELATED PARTY DISCLOSURES (Continued)

Foreign exchange gains	1 January - 30 June 2016	1 April - 30 June 2016	1 January - 30 June 2015	1 April - 30 June 2015
Yapı ve Kredi Bankası A.Ş. (1)	310.973	186.770	2.903.725	246.336
	310.973	186.770	2.903.725	246.336

Foreign exchange losses	1 January - 30 June 2016	1 April - 30 June 2016	1 January - 30 June 2015	1 April - 30 June 2015
Yapı ve Kredi Bankası A.Ş. (1)	1.846.898	44.460	4.935.104	2.712.035
	1.846.898	44.460	4.935.104	2.712.035

(1) Related parties of parent company of the Group

Benefits to key management

Employment benefits provided to the executive management to the Group for the six-month period ended at 30 June 2016 amounted to TL 3.241.893 (30 June 2015: TL 2.594.631). Management is composed of executive members, members of board of directors, general manager and assistants of general managers.

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

a) Foreign currency risk and related sensitivity analysis

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

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS AT 30 JUNE 2016

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

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

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

30 June 2016	TL equivalent (functional currency)	USD	EUR	GBP
1. Trade receivables	394.756.743	74.563.845	56.108.273	(205.363)
2a. Monetary financial assets (including cash, bank accounts)	156.951.364	43.482.976	9.714.271	158
2b. Non-monetary financial assets	-	-	-	-
3. Other	1.280	304	125	-
4. Current assets (1+2+3)	551.709.387	118.047.125	65.822.669	(205.205)
5. Trade receivables	70.228.191	-	21.916.175	-
6a. Monetary financial assets	-	-	-	-
6b. Non-monetary financial assets	-	-	-	-
7. Other	55.564	-	17.340	-
8. Non-current assets (5+6+7)	70.283.755	-	21.933.515	-
9. Total assets (4+8)	621.993.142	118.047.125	87.756.184	(205.205)
10. Trade payables	(51.760.594)	(7.276.527)	(9.531.571)	(41.941)
11. Financial liabilities	(28.354.863)	(2.999.994)	(6.139.708)	-
12a. Monetary other liabilities	(382.664.420)	(100.324.687)	(28.790.077)	(28.426)
12b. Non-monetary other liabilities	(22.014.228)	-	(6.870.000)	-
13. Current liabilities (10+11+12)	(484.794.105)	(110.601.208)	(51.331.356)	(70.367)
14. Trade payables	-	-	-	-
15. Financial liabilities	(96.569.983)	-	(30.136.682)	-
16a. Monetary other liabilities	-	-	-	-
16b. Non-monetary other liabilities	(17.544.090)	-	(5.475.000)	-
17. Non-current liabilities (14+15+16)	(114.114.073)	-	(35.611.682)	-
18. Total liabilities (13+17)	(598.908.178)	(110.601.208)	(86.943.038)	(70.367)
19. Net asset/(liability) position of off-balance sheet derivative instruments (19a-19b)	(19.805.769)	(9.059.500)	2.000.000	-
19a. Hedged total assets amount	16.022.000	-	5.000.000	-
19b. Hedged total liabilities amount	(35.827.769)	(9.059.500)	(3.000.000)	-
20. Net foreign currency asset/(liability) position (9+18+19)	3.279.195	(1.613.583)	2.813.146	(275.572)
21. Net foreign currency asset/(liability) position of monetary items (=1+2a+5+6a-10-11-12a-14-15-16a)	62.586.438	7.445.613	13.140.681	(275.572)
22. Total fair value of financial instruments used for foreign currency hedging	(19.805.769)	(9.059.500)	2.000.000	-
23. Export (for the six month period ended 30 June 2016)	201.334.629	36.303.122	29.169.987	11.997
24. Import (for the six month period ended 30 June 2016)	274.175.994	51.667.235	34.729.837	2.357.551

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

31 December 2015	TL equivalent (functional currency)	USD	EUR	GBP
1. Trade receivables	216.351.765	30.436.177	40.200.851	26.347
2a. Monetary financial assets (including cash, bank accounts)	145.541.867	47.570.674	2.273.765	60
2b. Non-monetary financial assets	-	-	-	-
3. Other	1.281	304	125	-
4. Current assets (1+2+3)	361.894.913	78.007.155	42.474.741	26.407
5. Trade receivables	99.220.390	-	31.224.946	-
6a. Monetary financial assets	188.278.141	64.753.797	-	-
6b. Non-monetary financial assets	-	-	-	-
7. Other	55.100	-	17.340	-
8. Non-current assets (5+6+7)	287.553.631	64.753.797	31.242.286	-
9. Total assets (4+8)	649.448.544	142.760.952	73.717.027	26.407
10. Trade payables	(68.719.333)	(16.392.611)	(4.554.888)	(1.530.580)
11. Financial liabilities	-	-	-	-
12a. Monetary other liabilities	(335.308.086)	(114.658.757)	(567.734)	(28.426)
12b. Non-monetary other liabilities	(21.830.112)	-	(6.870.000)	-
13. Current liabilities (10+11+12)	(425.857.531)	(131.051.368)	(11.992.622)	(1.559.006)
14. Trade payables	-	-	-	-
15. Financial liabilities	(158.609.314)	-	(49.914.814)	-
16a. Monetary other liabilities	-	-	-	-
16b. Non-monetary other liabilities	(28.312.416)	-	(8.910.000)	-
17. Non-current liabilities (14+15+16)	(186.921.730)	-	(58.824.814)	-
18. Total liabilities (13+17)	(612.779.261)	(131.051.368)	(70.817.436)	(1.559.006)
19. Net asset/(liability) position of off-balance sheet derivative instruments (19a-19b)	(31.351.414)	(9.176.250)	(3.500.000)	1.500.000
19a. Hedged total assets amount	17.568.986	3.823.750	-	1.500.000
19b. Hedged total liabilities amount	(48.920.400)	(13.000.000)	(3.500.000)	-
20. Net foreign currency asset/(liability) position (9+18+19)	5.317.869	2.533.334	(600.409)	(32.599)
21. Net foreign currency asset/(liability) position of monetary items (=1+2a+5+6a-10-11-12a-14-15-16a)	86.755.430	11.709.280	18.662.126	(1.532.599)
22. Total fair value of financial instruments used for foreign currency hedging	(31.351.415)	(9.176.250)	(3.500.000)	1.500.000
23. Export (for the six month period ended 30 June 2015)	130.332.547	22.892.616	25.019.846	19.346
24. Import (for the six month period ended 30 June 2015)	196.584.605	36.949.332	30.797.211	3.386.189

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

The following table demonstrates the sensitivity to a possible change of 10% in the USD, EUR and GBP exchange rates, with all other variables held constant, on the Group's income before tax as of 30 June 2016 and 31 December 2015:

30 June 2016	Profit before tax Appreciation of foreign currency	Profit before tax Depreciation of foreign currency
<i>If USD fluctuates 10% against TL:</i>		
1- USD net asset/liability	401.172	(401.172)
2- Amount hedged for USD risk (-)		
3- USD net effect (1+2)	401.172	(401.172)
<i>If EUR fluctuates 10% against TL:</i>		
4- EUR net asset/liability	33.366	(33.366)
5- Amount hedged for EUR risk (-)		
6- EUR net effect (1+2)	33.366	(33.366)
<i>If GBP fluctuates 10% against TL:</i>		
7- GBP net asset/liability	(106.619)	106.619
8- Amount hedged for GBP risk (-)		
9- GBP net effect (1+2)	(106.619)	106.619
Total (3+6+9)	327.919	(327.919)
31 December 2015	Profit before tax Appreciation of foreign currency	Profit before tax Depreciation of foreign currency
<i>If USD fluctuates 10% against TL:</i>		
1- USD net asset/liability	736.593	(736.593)
2- Amount hedged for USD risk (-)	-	-
3- USD net effect (1+2)	736.593	(736.593)
<i>If EUR fluctuates 10% against TL:</i>		
4- EUR net asset/liability	(190.786)	190.786
5- Amount hedged for EUR risk (-)	-	-
6- EUR net effect (1+2)	(190.786)	190.786
<i>If GBP fluctuates 10% against TL:</i>		
7- GBP net asset/liability	(14.020)	14.020
8- Amount hedged for GBP risk (-)	-	-
9- GBP net effect (1+2)	(14.020)	14.020
Total (3+6+9)	531.787	(531.787)

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NOTE 23 - FINANCIAL INSTRUMENTS

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximize the use of observable market data. If all significant inputs required to measure the fair value of a financial instrument are observable, the instrument is evaluated as level 2. Fair value calculations shall be disclosed based on the following hierarchy:

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

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

30 June 2016

Liabilities	Level 1	Level 2	Level 3	Total
Derivative financial instruments	-	22.769	-	22.769

31 December 2015

Assets	Level 1	Level 2	Level 3	Total
Derivative financial instruments	-	146.636	-	146.636

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

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

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

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

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**NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
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(Amounts expressed in Turkish Lira (“TL”) unless otherwise indicated.)

NOTE 24 - SUBSEQUENT EVENTS

None.

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

None.

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