

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

**CONVENIENCE TRANSLATION INTO ENGLISH OF
CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE INTERIM PERIOD 1 JANUARY - 30 JUNE 2017**

(ORIGINALLY ISSUED IN TURKISH)

**CONVENIENCE TRANSLATION INTO ENGLISH OF
INDEPENDENT AUDITOR'S REVIEW REPORT
ORIGINALLY ISSUED IN TURKISH
REPORT ON REVIEW OF CONDENSED CONSOLIDATED
INTERIM FINANCIAL INFORMATION**

To the Board of Directors of Otokar Otomotiv ve Savunma Sanayi A.Ş.

Introduction

1. We have reviewed the accompanying consolidated statement of financial position of Otokar Otomotiv ve Savunma Sanayi A.Ş. (the "Company") and its subsidiary ("collectively referred as the "Group") as at 30 June 2017, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity, consolidated cash flows and other explanatory notes for the six-month period then ended ("condensed consolidated interim financial information"). The management of the Group is responsible for the preparation and fair presentation of this condensed consolidated interim financial information in accordance with Turkish Accounting Standard 34 ("TAS 34") "Interim Financial Reporting". Our responsibility is to express a conclusion on this condensed consolidated interim financial information based on our review.

Scope of review

2. We conducted our review in accordance with the Standard on Review Engagements ("SRE") 2410, "Review of interim financial information performed by the independent auditor of the entity". A review of condensed consolidated interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Standards on Auditing and the objective of which is to express an opinion on the consolidated financial statements. Consequently, a review on the condensed consolidated interim financial information does not provide assurance that the audit firm will be aware of all significant matters which would have been identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

3. Based on our review, nothing has come to our attention that causes us to conclude that the accompanying condensed consolidated interim financial information of Otokar Otomotiv ve Savunma Sanayi A.Ş. is not prepared, in all material respects, in accordance with TAS 34.

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

Beste Gücümen, SMMM
Partner

Istanbul, 7 August 2017

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

**CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE PERIOD 1 JANUARY - 30 JUNE 2017**

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OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

CONSOLIDATED BALANCE SHEET AS OF 30 JUNE 2017

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

	Notes	(Reviewed) 30 June 2017	(Audited) 31 December 2016
Assets			
Current Assets			
Cash and cash equivalents	4	60.027	38.598
Trade receivables	8	451.330	388.658
<i>Due from related parties</i>	22	41.272	29.437
<i>Due from other parties</i>	8	410.058	359.221
Other receivables		11	20
Due from customers on contract works	10	257.004	245.830
Inventories	9	479.277	493.870
Derivative financial instruments	7	1.004	52
Prepaid expenses	14	183.106	176.766
Other current assets	14	54.032	106.138
Total current assets		1.485.791	1.449.932
Non-current assets			
Trade receivables	8	16.377	9.174
Other receivables		252	234
Financial investments	5	41	41
Property, plant and equipment	11	99.441	105.102
Intangibles	12	199.411	181.932
Deferred tax asset	20	37.853	37.853
Total non-current assets		353.375	334.336
Total assets		1.839.166	1.784.268

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 2017

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

	Notes	(Reviewed) 30 June 2017	(Audited) 31 December 2016
Liabilities			
Current liabilities			
Short-term borrowings	6	134.794	3
Short-term portion of long-term borrowings	6	10.686	4.669
Trade payables	8	158.377	401.145
<i>Due to related parties</i>	22	7.091	11.017
<i>Due to other parties</i>	8	151.286	390.128
Employee benefit obligations	14	10.356	21.440
Other payables, third parties		47.126	37.958
Deferred income	14	77.835	200.624
Government grants		2.048	2.156
Short-term provisions	13	423.365	387.144
<i>Provisions for employee benefits</i>		10.066	8.491
<i>Other provisions</i>		413.299	378.653
Other current liabilities	14	2.539	11.200
Total current liabilities		867.126	1.066.339
Non-current liabilities			
Borrowings	6	721.436	425.447
Government grants		2.412	3.382
Long-term provisions	13	37.859	38.388
<i>Provisions for employee benefits</i>		31.561	28.088
<i>Other provisions</i>		6.298	10.300
Deferred income	14	887	7.754
Total non-current liabilities		762.594	474.971
Total liabilities		1.629.720	1.541.310
Equity			
Paid-in share capital		24.000	24.000
Inflation adjustment on share capital		52.743	52.743
Restricted reserves		59.798	54.015
Accumulated other comprehensive income and expense that will not be reclassified to statement of profit or loss		(6.862)	(4.986)
<i>Defined benefit plans remeasurement losses</i>		(6.862)	(4.986)
Accumulated other comprehensive income and expense that may be reclassified to statement of profit or loss		1.613	1.329
<i>Currency translation differences</i>		1.613	1.329
Retained earnings		50.074	46.132
Net profit for the period		28.080	69.725
Total equity		209.446	242.958
Total liabilities and equity		1.839.166	1.784.268

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

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

STATEMENT OF PROFIT OR LOSS OR OTHER COMPREHENSIVE INCOME FOR THE INTERIM PERIOD 1 JANUARY - 30 JUNE 2017

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

	Notes	Reviewed		Reviewed	
		1 January - 30 June 2017	1 April - 30 June 2017	1 January - 30 June 2016	1 April - 30 June 2016
Net Sales	15	961.228	394.809	693.670	334.838
Cost of Sales (-)	15	(742.962)	(315.555)	(518.673)	(251.646)
GROSS PROFIT		218.266	79.254	174.997	83.192
Marketing expenses (-)	16	(107.811)	(48.673)	(85.877)	(39.987)
General administrative expenses (-)	16	(34.980)	(16.697)	(29.040)	(14.034)
Research and development expenses (-)	16	(21.989)	(11.068)	(16.242)	(6.794)
Other operating income	17	138.699	17.107	30.484	(29.827)
Other operating expenses (-)	17	(107.817)	(1.814)	(19.320)	35.564
OPERATING PROFIT		84.368	18.109	55.002	28.114
Income from investing activities		1.221	1.179	12	4
OPERATING INCOME BEFORE FINANCIAL EXPENSES		85.589	19.288	55.014	28.118
Financial income	18	7.103	3.930	4.666	2.792
Financial expense (-)	19	(64.612)	(32.286)	(40.989)	(21.935)
INCOME/ (LOSS) BEFORE TAX		28.080	(9.068)	18.691	8.975
Tax income/expense from continued operations					
Current tax income/(expense)	20	-	-	2.288	1.482
Deferred tax income/(expense)	20	-	-	(5.241)	(2.884)
PROFIT FOR THE PERIOD		28.080	(9.068)	15.738	7.573
Items that will not be reclassified to statement of profit or loss					
Remeasurement (losses)/gains		(1.876)	42	(109)	116
Deferred tax income/(expense)		-	(384)	22	(23)
Items that may be reclassified to statement of profit or loss Foreign					
Currency translation differences		284	46	(54)	(71)
Other comprehensive income/(loss) after tax		(1.592)	(296)	(141)	22
TOTAL COMPREHENSIVE INCOME		26.488	(9.364)	15.597	7.595
Earnings per share (Piaster)	21	0,117	0,038	0,066	0,032

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 INTERIM PERIODS ENDED 30 JUNE 2017 AND 2016

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

					Accumulated other comprehensive income and expense that will not be reclassified to statement of profit or loss	Accumulated other comprehensive income and expense that may be reclassified to statement of profit or loss)			
		Paid in share capital	Inflation adjustments	Restricted reserves	Remeasurement losses on defined benefit plans	Currency translation differences	Retained earnings	Net income for the period	Total equity
Previous Period	Opening Balances	24.000	52.743	46.935	(3.859)	(63)	43.296	81.916	244.968
	Transfers	-	-	7.080	-	-	74.836	(81.916)	-
	Dividends paid	-	-	-	-	-	(72.000)	-	(72.000)
	Total comprehensive income	-	-	-	(87)	(54)	-	15.738	15.597
	Closing Balances	24.000	52.743	54.015	(3.946)	(117)	46.132	15.738	188.565
Current Period	Opening Balances	24.000	52.743	54.015	(4.986)	1.329	46.132	69.725	242.958
	Transfers	-	-	5.783	-	-	63.942	(69.725)	-
	Dividends paid	-	-	-	-	-	(60.000)	-	(60.000)
	Total comprehensive income	-	-	-	(1.876)	284	-	28.080	26.488
	Closing Balances	24.000	52.743	59.798	(6.862)	1.613	50.074	28.080	209.446

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 INTERIM PERIOD ENDED 30 JUNE 2017 AND 2016

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

	Notes	(Reviewed) 1 January - 30 June 2017	(Reviewed) 1 January - 30 June 2016
CASH FLOWS FROM OPERATING ACTIVITIES		(254.019)	(16.810)
Net profit for the period		28.080	15.738
Adjustments to reconcile income before taxes to net cash flows from operating activities:		118.585	76.347
Depreciation and amortization	11, 12	32.100	22.917
Adjustments in relation to impairment:		1.614	(56)
-Provision for doubtful receivables	8	1.910	182
-Provision for inventories	9	(296)	(238)
Adjustments in relation to provision:		33.081	18.643
-Provision for employee benefits	13	4.785	4.280
-Warranty provision expenses	13	28.296	14.363
Adjustments in relation to interest income and expenses:		49.042	34.477
-Interest income on time deposits	18	(513)	(333)
-Interest expense on borrowings	19	49.555	34.810
Adjustments in relation to unrealised foreign exchange gains and losses		9.893	373
Adjustments in relation to fair value gains and losses		(5.924)	5
-Fair value losses/(gains) on financial derivative instruments, net		(5.924)	5
Adjustments in relation to gains or losses on sales of property, plant and equipment		(1.221)	(12)
-Gain on sale of property, plant and equipments		(1.221)	(12)
Changes in net working capital		(382.077)	(94.083)
Change in trade receivables		(71.794)	95.684
Change in due from customers on contract works		(11.174)	(12.140)
Change in inventories		14.889	(96.522)
Change in trade payables		(242.768)	(15.413)
Other changes		(71.230)	(65.692)
-Changes in other operating assets		45.766	(67.764)
-Changes in other operating liabilities		(116.996)	2.072
Cash flows from operations		(235.412)	(1.998)
Payments in relation to employee benefits	13	(3.188)	(2.521)
Payments in relation to other provisions	13	(20.390)	(14.742)
Deductions/(payments) in relation to income tax		-	2.288
Other cash collections/(payments)		4.971	163
CASH FLOWS FROM INVESTING ACTIVITIES		(42.697)	(31.808)
Proceeds from sale of property, plant and equipment and intangible assets		1.612	392
-Proceeds from sale of property, plant and equipment		1.612	392
Cash outflows due to purchase of property, plant and equipment and intangible assets		(44.309)	(32.200)
-Purchase of property, plant and equipment	11	(4.452)	(6.391)
-Purchase of intangible assets	12	(39.857)	(25.809)
CASH FLOWS FROM FINANCING ACTIVITIES		317.861	21.891
Cash inflow due to borrowings		421.764	478.499
- Proceeds from bank borrowings		421.764	478.499
Cash outflow due to repayment of borrowings		(6.922)	(363.614)
- Repayments of borrowings		(6.922)	(363.614)
Dividends paid		(60.000)	(72.000)
Interest paid		(37.494)	(21.327)
Interest received		513	333
NET DECREASE IN CASH AND CASH EQUIVALENTS BEFORE THE EFFECT OF CURRENCY TRANSLATION DIFFERENCES		21.145	(26.727)
Currency translation difference on cash and cash equivalents		284	(54)
NET DECREASE IN CASH AND CASH EQUIVALENTS		21.429	(26.781)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD		38.598	62.960
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		60.027	36.179

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

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO THE CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS AT 30 JUNE 2017

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

NOTE 1 - GROUP’S ORGANIZATION AND NATURE OF OPERATIONS

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

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

The registered addresses of the Company are as follows:

Headquarters:

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

Plant:

Atatürk Cad. No: 6
54580 Arifiye/Sakarya

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

<u>Legal Name</u>	<u>Nature of operations</u>	<u>Country</u>	<u>Capital</u>	<u>Ownership (%)</u>
Otokar Europe SAS	Trade	France	Euro 100 thousand (TL 239 thousand)	100,00

On 13 April 2016, the Company management has decided to initiate the establishment of a subsidiary; “Otokar Land Systems LLC” in United Arab Emirates with a capital of Arab Emirates Dirham (“AED”) 50 thousand in order to organise export activities and increase foreign sales especially to these regions. The establishment process was finalised as of the date of this consolidated financial statements. Since financial activities of Otokar Land System LLC has not started, the investment was presented under financial investments.

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

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

	<u>30 June 2017</u>		<u>31 December 2016</u>	
	<u>Period end</u>	<u>Average</u>	<u>Period end</u>	<u>Average</u>
Total personnel	2.219	2.227	2.297	2.409

This consolidated financial statements for the period ended 30 June 2017 were authorized for issue and signed with the approval of the Internal Audit Committee by the Board of Directors of Otokar on 7 August 2017. The accompanying consolidated financial statements may be amended by the General Assembly.

Otokar is registered to the Capital Market Board (“CMB”) and its shares are listed on the Borsa Istanbul A.Ş. (“BIST”) since 1995. As of 30 June 2017 27,45% of the shares are quoted on the BIST.

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO THE CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS AT 30 JUNE 2017

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

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

As of 30 June 2017, 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

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

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

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

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

NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

2.1 Basis of presentation

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

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

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

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO THE CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS AT 30 JUNE 2017

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

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

Functional and presentation currency

Functional and presentation currency of the Company is TL.

In accordance with the CMB's resolution dated 17 March 2005 and numbered 11/367, the financial statements were restated in accordance with International Accounting Standards (IAS) 29 (Financial Reporting in Hyperinflationary Economies) for the last time as of 31 December 2004, since the objective conditions which require the application of restatement of financial statements have not been realized and that based on the existing data CMB has foreseen that the indications whether such conditions are going to be realized in the future is no longer probable. Therefore, non-monetary assets, liabilities and equity items including the share capital as of 30 June 2017 and 31 December 2016 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 subsidiary 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 THE CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS AT 30 JUNE 2017

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

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

The table below sets out the subsidiaries of the Company and shows the total interest of the Company in these companies at 30 June 2017 and 2016:

Subsidiaries	2017		2016	
	Direct and indirect ownership (%)	Proportion of effective interest (%)	Direct and indirect ownership (%)	Proportion of effective ownership (%)
Otokar Europe SAS	100,00	100,00	100,00	100,00
Otokar Land Systems LLC (*)	100,00	100,00	100,00	100,00

(*) Since financial activities of Otokar Land System LLC has not started, the investment was presented under financial investments

2.3 Accounting errors and changes in accounting estimates

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

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

2.5 Changes and comments in TAS and TFRS

The accounting policies adopted in the preparation of the financial statements at of 30 June 2017 are consistent with those of the previous financial year, except for the new and amended standards and TFRYK interpretations effective from 1 January 2017, which are summarized below.

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO THE CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS AT 30 JUNE 2017

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

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

The following standards and interpretations have had no significant impact on the Group's Consolidated Financial Statements:

A) According to TAS 8, paragraph 28, new standards in effect as of the reporting date and amendments and comments to the existing standards

Explanations on the financial statement effects of the new TAS/IFRS:

- title of TMS/IFRS;
- the accounting policy change has been made in accordance with the relevant transition provisions;
- clarification of changes in accounting policy;
- disclosure of transitional provisions, if any;
- the effects of transitional provisions on future periods;
- As far as possible, adjustments related to the current and previous periods presented:
 - i. each affected financial statement must be presented for the item, and
 - ii. if the "TAS 33 Earnings per Share" standard is met for the company, the ordinary shares and earnings per diluted share must be recalculated;
- Adjustments for periods prior to periods not available, if possible; And retrospective application is not possible for any period or period, disclosures should be made of the events leading up to this and the date on which the change in accounting policy is applied and how it is applied.

B) Standards, amendments and interpretations issued pursuant to TAS 8, paragraph 30, which are not yet effective as of the reporting date

If a new TAS/IFRS that has been issued but not yet entered into force is not applied early:

- the situation in question; and
- Known or reasonably estimable information about the probable effects of the change in the financial statements in the period in which a TAS/IFRS is first required to be disclosed in the financial statements.

a. Standards, amendments and interpretations applicable as at 30 June 2017

- **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.
- **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 clarifies certain other aspects of accounting for deferred tax assets.
- **Annual improvements for the period 2014-2016; IFRS 12, 'Disclosure of interests in other entities'** regarding clarification of the scope of the standard. These amendments should be applied retrospectively for annual periods beginning on or after 1 January 2017.

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO THE CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS AT 30 JUNE 2017

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

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

b. Standards, amendments and interpretations effective after 30 June 2017

- **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.
- **TFRS 9 ‘Financial instruments’**, effective from annual periods beginning on or after 1 January 2018. This standard replaces the guidance in TAS 39. It includes requirements on the classification and measurement of financial assets and liabilities; it also includes an expected credit losses model that replaces the current incurred loss impairment model.
- **TFRS 15 ‘Revenue from contracts with customers’**, effective from annual periods beginning on or after 1 January 2018. TFRS 15, ‘Revenue from contracts with customers’ is a converged standard from the TASB and FASB on revenue recognition. The standard will improve the financial reporting of revenue and improve comparability of the top line in financial statements globally.
- **Amendment to TFRS 15, ‘Revenue from contracts with customers’**, effective from annual periods beginning on or after 1 January 2018. These amendments comprise clarifications of the guidance on identifying performance obligations, accounting for licences of intellectual property and the principal versus agent assessment (gross versus net revenue presentation). New and amended illustrative examples have been added for each of those areas of guidance. The TASB has also included additional practical expedients related to transition to the new revenue standard.
- **TFRS 16 ‘Leases’**, effective from annual periods beginning on or after 1 January 2019, This standard replaces the current guidance in TAS 17 and is a far-reaching change in accounting by lessees in particular. Under TAS 17, lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). TFRS 16 now requires lessees to recognise a lease liability reflecting future lease payments and a ‘right-of-use asset’ for virtually all lease contracts. The TASB 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 TASB has updated the guidance on the definition of a lease (as well as the guidance on the combination and separation of contracts), lessors will also be affected by the new standard. At the very least, the new accounting model for lessees is expected to impact negotiations between lessors and lessees. Under TFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

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

- **Amendments to IFRS 4, "Insurance contracts"** regarding the implementation of IFRS 9, 'Financial instruments', effective from annual periods beginning on or after 1 January 2018. These amendments introduce two approaches: an overlay approach and a deferral approach. The amended standard will:
 - i. give all companies that issue insurance contracts the option to recognise in other comprehensive income, rather than profit or loss, the volatility that could arise when IFRS 9 is applied before the new insurance contracts standard is issued; and
 - ii. give companies whose activities are predominantly connected with insurance an optional temporary exemption from applying IFRS 9 until 2021. The entities that defer the application of IFRS 9 will continue to apply the existing financial instruments standard IAS 39.
- **Amendment to IAS 40, "Investment property"** relating to transfers of investment property, effective from annual periods beginning on or after 1 January 2018. These amendments clarify that to transfer to, or from, investment properties there must be a change in use. To conclude if a property has changed use there should be an assessment of whether the property meets the definition. This change must be supported by evidence.
- **Annual improvements for the period 2014-2016;** IFRS 1, "First-time adoption of IFRS", regarding the deletion of short-term exemptions for first-time adopters regarding IFRS 7, IAS 19, and IFRS 10 effective 1 January 2018.
- IAS 28, "Investments in associates and joint ventures" regarding measuring an associate or joint venture at fair value effective 1 January 2018.
- **IFRS 22, "Foreign currency transactions and advance consideration"**, effective from annual periods beginning on or after 1 January 2018. This IFRIC addresses foreign currency transactions or parts of transactions where there is consideration that is denominated or priced in a foreign currency. The interpretation provides guidance for when a single payment/receipt is made as well as for situations where multiple payments/receipts are made. The guidance aims to reduce diversity in practice.
- **IFRS 17 "Insurance Contracts"** is effective for annual reporting periods beginning on or after 1 January 2021. This standard replaces TFRS 4, which allows a wide range of applications. TFRS 17 will change the basis of insurance contracts and the accounting of all entities that issue investment contracts with voluntary participation features.

NOTE 3 - SEGMENT REPORTING

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

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

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

NOTE 4 - CASH AND CASH EQUIVALENTS

	30 June 2017	31 December 2016
Banks		
- demand deposits	16.738	11.536
- time deposits	42.400	26.059
Cheques and notes receivable	816	918
Other	73	85
	60.027	38.598

As of 30 June 2017, TL 42.400 thousand of the total amount of time deposits amounting to TL 9.878 thousand is denominated in foreign currency and the annual effective interest rate is 0,21% and has a maturity of 3 days. The remaining annual effective interest rate of TL 32.522 thousand is 13,55% and has a maturity of 3 days.

As of 31 December 2016, TL 26.059 thousand of the total time deposits amounting to TL 17.479 thousand is denominated in foreign currency and the annual effective interest rate is 0,10% and has a maturity of 3 days. The remaining annual effective interest rate of TL 8.580 thousand is 8,25% and has a maturity of 3 days.

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

As of 30 June 2017, the Group has restricted bank deposit amounting to TL 0,2 thousand (31 December 2016: TL 0,8 thousand).

NOTE 5 - FINANCIAL INVESTMENTS

The Company has a subsidiary named "Otokar Land Systems LLC" with paid in capital of AED 50 thousand (TL 41 thousand), established in United Arab Emirates for the purpose of organizing export activities and increasing export sales. Since Otokar Land Systems LLC's operations does not materially affect the financial statements, it has not been subject to consolidation and has been presented at historical cost value.

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NOTES TO THE CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS AT 30 JUNE 2017

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NOTE 6 - BORROWINGS

30 June 2017

	Maturities	Interest rate (%)	TL
Short-term bank borrowings (*)			
Denominated in TL (***)	3 July 2017	-	694
Denominated in EUR	3 July 2017	2,25	134.100
			134.794

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

Denominated in TL		12,60 - 14,65	10.136
Denominated in EUR		2,90	550
			10.686

30 June 2017

	Maturities	Interest rate (%)	TL
Long-term bank borrowings (*) (**)			
Denominated in TL	15 August 2018 - 1 March 2019	12,60-14,65	641.376
Denominated in EUR	28 September 2018	2,90	80.060
			721.436

(*) Bearing fixed interest rate.

(**) Weighted average maturity days of long-term borrowings are 508 days.

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

31 December 2016

	Maturities	Interest rate (%)	TL
Short-term bank borrowings (*)			
Denominated in TL (***)	2 January 2017	-	3
			3

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

Denominated in TL		12,60-14,65	4.178
Denominated in EUR		2,90	491
			4.669

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

NOTE 6 - BORROWINGS (Continued)

31 December 2016

	Maturities	Interest rate (%)	TL
Long-term bank borrowings (*) (**)			
Denominated in TL	15 August 2018 - 12 November 2018	12,60 - 14,65	351.249
Denominated in EUR	28 September 2018	2,90	74.198
			425.447

(*) Bearing fixed interest rate.

(**) Weighted average maturity days of long-term borrowings are 632 days.

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

As of 30 June 2017, the Group has not provided any guarantees for the borrowings (31 December 2016: None).

NOTE 7 - DERIVATIVE FINANCIAL INSTRUMENTS

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

	Contract amount	Current period contract maturity	Fair value assets
30 June 2017:			
Forward transactions	295.458	6 July 2017 - 13 July 2017	1.004
Short-term derivative financial instruments	295.458		1.004
Total derivative financial instruments	295.458		1.004
31 December 2016:			
Forward transactions	25.397	12 January 2017	52
Short-term derivative financial instruments	25.397		52
Total derivative financial instruments	25.397		52

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NOTES TO THE CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS AT 30 JUNE 2017

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NOTE 8 - TRADE RECEIVABLES AND PAYABLES

Trade receivables

	30 June 2017	31 December 2016
Trade receivables, net	298.501	258.579
Notes receivables, net	142.371	129.552
	440.872	388.131
Less: provision for doubtful receivables	(30.814)	(28.910)
Short-term trade receivables	410.058	359.221
Trade receivables from related parties (Note 22)	41.272	29.437
Short-term trade receivables	451.330	388.658
Long-term trade receivables, net	10.590	-
Long-term notes receivable, net	5.787	9.174
Long-term trade receivables	16.377	9.174

As of 30 June 2017, the average maturity of trade receivables is between 60-90 days (excluding notes receivables) (31 December 2016 60-90 days.).

As of 30 June 2017, there are no trade receivables subject to factoring arrangement (31 December 2016: TL 451.647 thousand).

As of 30 June 2017 and 31 December 2016, the fair values of trade receivables approximate to their carrying values due to short term maturity of those receivables.

Guarantees received for trade receivables

Receivables of the Group are mainly composed of minibus and bus sales to dealers and trailer and armored vehicle sales. As of 30 June 2017, the total trade receivable from dealers amounting to TL 122.736 thousand (31 December 2016: TL 79.884 thousand), after provision provided for doubtful receivables, has been secured by mortgages and guarantees at the amount of TL 171.302 thousand (31 December 2016: TL 134.631 thousand).

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

30 June 2017	Trade receivables
1- 30 day past due	-
1- 3 month past due	-
3- 12 month past due	-
1- 5 year past due	236
Over 5 years past due	-
Total	236
Amount secured with guarantees	236

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NOTES TO THE CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS AT 30 JUNE 2017

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

NOTE 8 - TRADE RECEIVABLES AND PAYABLES (Continued)

31 December 2016	Trade receivables
1- 30 day past due	-
1- 3 month past due	-
3- 12 month past due	-
1- 5 year past due	219
Over 5 years past due	-
Total	219
Amount secured with guarantees	219

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 periods ended 30 June 2017 and 2016 are as follows:

	2017	2016
As of 1 January	28.910	25.973
Collection	(6)	(547)
Currency translation difference	84	8
Increase during the period	1.826	174
As of 30 June	30.814	25.608

Trade payables

	30 June 2017	31 December 2016
Trade payables, net	150.935	389.799
Notes payables, net	351	329
Short-term other trade payables	151.286	390.128
Trade payables to related parties (Note 22)	7.091	11.017
Short-term trade payables	158.377	401.145

As of 30 June 2017, average payment term for trade payables is 45-60 days (31 December 2016: 45-60 days).

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

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

NOTE 9 - INVENTORIES

	30 June 2017	31 December 2016
Raw material	203.029	182.574
Semi-finished goods	46.143	73.212
Finished goods	77.127	116.973
Merchandise goods	82.259	67.684
Goods in transit	71.129	54.133
Impairment for inventories (*)	(410)	(706)
	479.277	493.870

(*) TL 197 thousand of impairment is related to finished goods (31 December 2016: TL 100 thousand) and TL 213 thousand is related to merchandises (31 December 2016: TL 606 thousand). The impairment has been accounted for under cost of sales.

NOTE 10 - DUE FROM CUSTOMERS ON CONTRACT WORKS

Receivable from uncompleted contracts is TL 257.004 thousand as of 30 June 2017 (31 December 2016: TL 245.830 thousand) after offsetting with short-term advances received.

The Group has received forward contracts as of 30 June 2017 and there are no short term advances in deferred income in the Consolidated Financial Statements (31 December 2016: TL 32.407 thousand).

NOTE 11 - PROPERTY, PLANT AND EQUIPMENT

Movements of property, plant and equipment and related accumulated depreciation for the periods ended 30 June 2017 and 30 June 2016 are as follows:

	1 January 2017	Additions	Currency translation difference	Disposals	Transfers	30 June 2017
Cost:						
Land	37.457	-	-	-	-	37.457
Land improvements	11.970	3	-	-	-	11.973
Buildings	60.633	-	-	-	-	60.633
Machinery and equipment	106.176	1.301	47	(303)	-	107.221
Motor vehicles	9.613	527	-	(545)	-	9.595
Furniture and fixtures	33.986	1.438	15	-	2	35.441
Leasehold improvements	2.116	13	-	-	-	2.129
Construction in process	696	1.108	-	-	(2)	1.802
	262.647	4.390	62	(848)	-	266.251
Accumulated depreciation:						
Land improvements	(7.479)	(333)	-	-	-	(7.812)
Buildings	(37.501)	(4.341)	-	-	-	(41.842)
Machinery and equipment	(86.576)	(2.479)	(24)	303	-	(88.776)
Motor vehicles	(5.633)	(332)	-	154	-	(5.811)
Furniture and fixtures	(18.839)	(2.043)	(11)	-	-	(20.893)
Leasehold improvements	(1.517)	(159)	-	-	-	(1.676)
	(157.545)	(9.687)	(35)	457	-	(166.810)
Net book value	105.102					99.441

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NOTES TO THE CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS AT 30 JUNE 2017

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

NOTE 11 - PROPERTY, PLANT AND EQUIPMENT (Continued)

	1 January 2016	Additions	Currency translation differences	Disposals	Transfers	30 June 2016
Cost:						
Land	37.457	-	-	-	-	37.457
Land improvements	11.953	-	-	-	-	11.953
Buildings	60.540	-	-	-	-	60.540
Machinery and equipment	99.678	1.351	4	-	46	101.079
Motor vehicles	8.428	1.742	-	(393)	-	9.777
Furniture and fixtures	28.601	2.073	1	-	73	30.748
Leasehold improvements	2.099	7	-	(96)	-	2.010
Construction in process	964	1.213	-	-	(125)	2.052
	249.720	6.386	5	(489)	(6)	255.616
Accumulated depreciation:						
Land improvements	(6.826)	(329)	-	-	-	(7.155)
Buildings	(34.713)	(1.403)	-	-	-	(36.116)
Machinery and equipment	(81.637)	(2.547)	(2)	-	-	(84.186)
Motor vehicles	(5.148)	(346)	-	55	-	(5.439)
Furniture and fixtures	(15.938)	(1.474)	(1)	-	-	(17.413)
Leasehold improvements	(1.325)	(168)	-	54	-	(1.439)
	(145.587)	(6.267)	(3)	109	-	(151.748)
Net book value	104.133					103.868

Allocation of depreciation and amortization expenses of property, plant and equipment and intangible assets for the periods ended at 31 June 2017 and 2016 are as follows:

	30 June 2017	30 June 2016
Research and development expenses	21.285	15.545
Cost of goods sold	2.213	2.296
Costs related to uncompleted contracts	5.156	1.877
Development projects in process	961	941
Depreciation on outstanding inventories	1.003	698
General administrative expenses	810	896
Selling and marketing expenses	637	662
Currency translation differences	35	2
	32.100	22.917

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NOTE 12 - INTANGIBLE ASSETS

Movements of intangible assets and related accumulated amortisation for the periods ended 30 June 2017 and 2016 are as follows:

	1 January 2017	Additions	Currency translation differences	Disposals	Transfers	30 June 2017
Cost:						
Other intangible assets	18.028	603	-	-	-	18.631
Development costs	297.383	-	-	-	-	297.383
Developments projects in progress	38.079	39.254	-	-	-	77.333
	353.490	39.857	-	-	-	393.347
Accumulated amortization:						
Other intangible assets	(14.078)	(1.093)	-	-	-	(15.171)
Development costs	(157.480)	(21.285)	-	-	-	(178.765)
	(171.558)	(22.378)	-	-	-	(193.936)
Net book value	181.932					199.411

	1 January 2016	Additions	Currency translation differences	Disposals	Transfers	30 June 2016
Cost:						
Other intangible assets	16.232	1.072	-	-	5	17.309
Development costs	242.620	-	-	-	2.728	245.348
Developments projects in progress	31.224	24.738	-	-	(2.728)	53.234
	290.076	25.810	-	-	5	315.891
Accumulated amortization:						
Other intangible assets	(11.973)	(1.102)	-	-	-	(13.075)
Development costs	(122.683)	(15.545)	-	-	-	(138.228)
	(134.656)	(16.647)	-	-	-	(151.303)
Net book value	155.420					164.588

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NOTE 13 - PROVISIONS, CONTINGENT ASSETS AND LIABILITIES

Short-term provisions

	30 June 2017	31 December 2016
Provision for other costs (*)	359.230	340.871
Warranty provision	42.993	31.085
Short-term provisions for employee benefits	10.066	8.491
Other	11.076	6.697
	423.365	387.144

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

Long-term provisions

	30 June 2017	31 December 2016
Warranty provision	6.298	10.300
	6.298	10.300

Warranty provision

The Group 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.

As of 30 June 2017 and 2016, The movement of the warranty expense provision is as follows:

	2017	2016
1 January	41.385	35.831
Additional provision	28.296	14.363
Payments	(20.390)	(14.741)
30 June	49.291	35.453

Provisions for employee benefits

	30 June 2017	31 December 2016
Provision for employment termination benefits	31.561	28.088
Provision for unused vacation	10.066	8.491
	41.627	36.579

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

Foundation employer's share of social security premium

The amount payable consists of one month's salary limited to a maximum of TL 4.732 for each year of service as of 30 June 2017 (31 December 2016 - TL 4.297).

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 Group arising from the retirement of the employees.

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 2017	31 December 2016
Net discount rate (%)	4,50	4,50
Turnover rate to estimate the probability of retirement (%)	97,71	97,50

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 provision for employment termination benefits are as follows:

	2017	2016
1 January	28.088	22.321
Interest expense	1.271	1.010
Charge for the period	3.514	3.270
Remeasurement differences	1.876	109
Payments	(3.188)	(2.521)
31 December	31.561	24.189

Provision for unused vacation

The movements of provision for unused vacation are as follows:

	2017	2016
1 January	8.491	6.652
Charge for the period, net	1.575	2.132
30 June	10.066	8.784

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

Commitments and contingencies

Collaterals/pledges/mortgages/bill of guarantees ("CPMB") position of the Group as of June 30, 2017 and December 31, 2016 are as follows:

	30 June 2017	31 December 2016
a. Total amount of CPMB's given the name of legal entity	1.508.123	1.614.606
b. Total amount of CPMB's given in favour of the parties which are included in the scope of full consolidation	-	-
c. Total amount of CPMB's given to third parties for their liabilities in the purpose of conducting the ordinary operations	-	-
d. Total amount of other CPMB's	-	-
	1.508.123	1.614.606

The details of CPMB's in terms of original currencies are as follows:

	30 June 2017		31 December 2016	
	Original currency	TL equivalent	Original currency	TL equivalent
USD	259.797	911.134	285.635	1.005.208
EUR	118.386	473.898	112.796	418.461
TL	123.091	123.091	189.755	189.755
GBP	-	-	274	1.182
Total		1.508.123		1.614.606

The details of CPMB's in terms of company/institution are as follows:

	30 June 2017	31 December 2016
Guarantee letters given		
Under Secretariat of Ministry of Defense	1.161.649	1.092.184
Other	346.474	522.422
	1.508.123	1.614.606

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

Guarantee letters

a) Guarantees given as of 30 June 2017 and 31 December 2016 are as follows:

	30 June 2017	31 December 2016
Bank letters of guarantee (*)	1.508.123	1.614.606
	1.508.123	1.614.606

(*) Bank letters of guarantee amounting to TL 872.722 thousand are given to Secretariat of Ministry of Defense for Altay Project (31 December 2016: TL 875.733 thousand).

b) Guarantees received as of 30 June 2017 and 31 December 2016 are as follows:

	30 June 2017	31 December 2016
Bank letters of guarantee (**)	571.780	551.490
Guarantee notes	14.281	15.898
Mortgages received	20	20
	586.081	567.408

(**) Bank letters of guarantee amounting to TL 326.348 thousand are obtained from the sub-contractors for Altay Project (31 December 2016: TL 317.195 thousand).

Contingent asset

The legal case related to tax deduction for the research and development activities in 2010 was concluded in favor of the Group and TL 2.924 thousand was refunded to the Group. The same case for 2011-2012-2013-2014 is still in progress at appeal phase.

Total amount of cases at the appeal phase relating to years 2011-2012-2013-2014 amount to TL 36.169 thousand the amount of the legal case for 2015 is TL 4.557 thousand.

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NOTES TO THE CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS AT 30 JUNE 2017

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

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

a) Prepaid expenses:

	30 June 2017	31 December 2016
Advances given	177.439	171.436
Prepaid expenses	5.667	5.330
	183.106	176.766

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

b) Other current assets:

	30 June 2017	31 December 2016
Value added tax receivables	53.112	105.448
Other	920	690
	54.032	106.138

c) Deferred revenues:

Deferred revenues - short term	30 June 2017	31 December 2016
Advances received	56.806	175.322
Deferred maintenance revenues (*)	21.029	25.302
	77.835	200.624
Deferred revenues - long term	30 June 2017	31 December 2016
Deferred maintenance revenues (*)	887	7.754
	887	7.754

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

d) Employee benefits obligation:

	30 June 2017	31 December 2016
Social security payables	6.006	6.324
Payables to employees	2.393	10.365
Taxes and funds payable	1.957	4.751
	10.356	21.440

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

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

NOTE 14 - PROVISIONS, CONTINGENT ASSETS AND LIABILITIES (Continued)

e) Other current liabilities:

	30 June 2017	31 December 2016
Deferred special consumption tax	626	9.273
Tax and fund payable	440	1.403
Other	1.473	524
	2.539	11.200

NOTE 15 - REVENUE AND COST OF SALES

Net sales

	1 January - 30 June 2017	1 April - 30 June 2017	1 January - 30 June 2016	1 April - 30 June 2016
Domestic Sales	761.037	307.521	494.775	249.602
Export Sales	204.649	89.022	204.249	87.717
Gross Sales	965.686	396.543	699.024	337.319
Less: sales discounts and returns	(4.458)	(1.734)	(5.354)	(2.481)
Net sales	961.228	394.809	693.670	334.838

Sales of the Group for the periods ended 30 June 2017 and 2016 in terms of the products are as follows:

	1 January - 30 June 2017	1 April - 30 June 2017	1 January - 30 June 2016	1 April - 30 June 2016
Commercial vehicle	266.871	130.132	242.954	128.528
Armored vehicle	535.045	200.640	281.669	121.965
Revenue from uncompleted contracts	64.378	23.487	90.396	45.318
Other (*)	94.934	40.550	78.651	39.027
	961.228	394.809	693.670	334.838

(*) It consists of spare parts, service and other sales revenues.

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

NOTE 15 - REVENUE AND COST OF SALES (Continued)

Cost of sales

	1 January - 30 June 2017	1 April - 30 June 2017	1 January - 30 June 2016	1 April - 30 June 2016
Cost of finished goods sold	(698.304)	(295.085)	(486.161)	(236.472)
Cost of merchandise goods sold	(44.658)	(20.470)	(32.512)	(15.174)
Cost of sales	(742.962)	(315.555)	(518.673)	(251.646)

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

	1 January - 30 June 2017	1 April - 30 June 2017	1 January - 30 June 2016	1 April - 30 June 2016
Marketing expenses	(107.811)	(48.673)	(85.877)	(39.987)
General administrative expenses	(34.980)	(16.697)	(29.040)	(14.034)
Research and development expenses	(21.989)	(11.068)	(16.242)	(6.794)
	(164.780)	(76.438)	(131.159)	(60.815)

NOTE 17 - OTHER OPERATING INCOME AND EXPENSES

	1 January - 30 June 2017	1 April - 30 June 2017	1 January - 30 June 2016	1 April - 30 June 2016
Other operating income				
Foreign exchange gains on operating activities	102.550	(1.562)	15.041	(37.083)
Gain on forward transactions	18.830	10.257	4.382	1.773
Revenue from charge of due date receivables	8.993	4.209	4.826	2.211
Gain on incentives	1.078	539	1.028	514
Other	7.248	3.664	5.207	2.758
Total	138.699	17.107	30.484	(29.827)

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO THE CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS AT 30 JUNE 2017

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NOTE 17 - OTHER OPERATING INCOME AND EXPENSES (Continued)

	1 January - 30 June 2017	1 April - 30 June 2017	1 January - 30 June 2016	1 April - 30 June 2016
Other operating expenses				
Foreign exchange loss on operating activities	(92.854)	6.018	(14.758)	37.517
Loss on forward transactions	(12.906)	(7.244)	(4.387)	(1.976)
Expense on provision for uncollectible receivables	(1.825)	(588)	(175)	23
Other	(232)	-	-	-
Total	(107.817)	(1.814)	(19.320)	35.564

NOTE 18 - FINANCIAL INCOME

	1 January - 30 June 2017	1 April - 30 June 2017	1 January - 30 June 2016	1 April - 30 June 2016
Interest income from time deposits	513	339	333	112
Foreign exchange gains on deposits	6.590	3.591	2.075	422
Foreign exchange gains on bank loans	-	-	2.258	2.258
Total	7.103	3.930	4.666	2.792

NOTE 19 - FINANCIAL EXPENSES

	1 January - 30 June 2017	1 April - 30 June 2017	1 January - 30 June 2016	1 April - 30 June 2016
Interest expense on bank borrowings	(5.098)	(1.984)	(2.550)	(134)
Foreign exchange losses on deposits	(49.555)	(24.349)	(34.810)	(19.505)
Foreign exchange losses on bank loans	(9.893)	(5.925)	(3.499)	(2.195)
Other	(66)	(28)	(130)	(101)
Total	(64.612)	(32.286)	(40.989)	(21.935)

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO THE CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS AT 30 JUNE 2017

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NOTE 20 - TAX ASSETS AND LIABILITIES

In Turkey, the corporation tax rate is 20% (2016 - 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 2017 and 31 December 2016, income tax payables are presented net of prepaid taxes in the balance sheet as follows:

	30 June 2017	31 December 2016
Income tax payable	602	572
Less: Prepaid tax	(602)	(572)
Income tax payable	-	-

The breakdown of total tax expense for the periods ended 30 June 2017 and 2016 are as follows:

	1 January - 30 June 2017	1 January - 30 June 2016
Current tax charge	-	2.288
Deferred tax income:		
Charged to profit for the period	-	(5.241)
Charged to other comprehensive income	-	22
Total	-	(2.931)

As of 30 June 2017 and 31 December 2016, 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)	
	30 June 2017	31 December 2016	30 June 2017	31 December 2016
R&D expenses	43.449	66.991	8.690	13.398
Property, plant and equipment	(5.690)	(10.263)	2.343	1.429
Intangible assets	(39.350)	(44.360)	(7.870)	(8.872)
Deferred financial expense	(877)	(1.278)	(175)	(256)
Inventories	358	710	72	142
Warranty provision	49.291	31.085	9.858	6.217
Provision for employment termination benefits	31.561	28.088	6.312	5.618
Deferred financial income	2.585	3.291	517	658
Provision for doubtful receivables	2.775	2.699	555	540
Unused vacation obligation	10.066	8.491	2.013	1.698
Other provisions	12.046	2.728	2.409	546
Deferred maintenance income	21.916	33.056	4.383	6.611
Due from customers on contract works	55.408	50.621	11.082	10.124
Other	(11.678)	3	(2.336)	-
Deferred tax assets, net			37.853	37.853

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO THE CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS AT 30 JUNE 2017

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

NOTE 20 - TAX ASSETS AND LIABILITIES (Continued)

	2017	2016
1 January	37.853	37.314
Deferred tax income:		
Charged to profit for the period	-	(5.241)
Charged to other comprehensive income	-	22
30 June	37.853	32.095

NOTE 21 - EARNINGS PER SHARE

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

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

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

	30 June 2017	30 June 2016
Net income attributable to shareholders (TL)	28.080	15.738
Weighted average number of issued shares	24.000.000.000	24.000.000.000
Earnings per share (Piaster)	0,117	0,066

NOTE 22 - RELATED PARTY DISCLOSURES

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

i) Due from and due to related party balances as of 30 June 2017 and 31 December 2016:

Due from related parties	30 June 2017	31 December 2016
Ram Dış Ticaret A.Ş. (1) (*)	41.272	29.335
Ford Otomotiv Sanayi A.Ş. (1), (2)	-	67
Türk Traktör ve Ziraat Makineleri A.Ş. (1)	-	35
Total	41.272	29.437

(*) 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.

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

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NOTE 22 - RELATED PARTY DISCLOSURES (Continued)

Due to related parties	30 June 2017	31 December 2016
Otokoç Otomotiv Tic. ve San. A.Ş. (1)	2.582	409
Ram Dış Ticaret A.Ş. (1)	1.931	1.245
Zer Merkezi Hizmetler A.Ş. (1)	522	1.965
Opet Fuchs Madeni Yağ A.Ş. (1)	479	614
Koçtaş Yapı Marketleri A.Ş. (1)	434	12
Koç Üniversitesi (1)	335	-
Koç Holding A.Ş. (2)	319	4.609
Opet Petrolcülük A.Ş. (1)	193	118
Ford Otosan A.Ş. (1), (2)	155	90
Other (1)	141	1.955
Total	7.091	11.017

(1) Related parties of parent company

(2) Shareholder

ii) Major sales and purchase transactions with related parties are as follows:

Product sales and service revenue	1 January - 30 June 2017	1 April - 30 June 2017	1 January - 30 June 2016	1 April - 30 June 2016
Ram Dış Ticaret A.Ş. (1)	95.971	37.587	103.627	22.580
Ford Otosan A.Ş. (1), (2)	61	-	155	155
Tofaş Türk Otomobil Fabrikası A.Ş. (1)	22	22	-	-
Akpa Dayanıklı Tük. Paz. A.Ş. (1)	1	-	-	-
Arçelik A.Ş. (1)	-	-	1	1
Aygaz A.Ş. (1)	-	-	3	-
Türk Traktör ve Ziraat Makineleri A.Ş. (1)	-	-	316	-
Total	96.055	37.609	104.102	22.736

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

Purchase of property, plant and equipment	1 January - 30 June 2017	1 April - 30 June 2017	1 January - 30 June 2016	1 April - 30 June 2016
KoçSistem Bilgi ve İletişim Hizm. A.Ş. (1)	1.236	707	1.851	1.204
Otokoç Otomotiv Tic. ve San. A.Ş. (1)	281	281	60	60
Other (1)	49	48	118	80
Total	1.566	1.036	2.029	1.344

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NOTE 22 - RELATED PARTY DISCLOSURES (Continued)

	1 January - 30 June 2017	1 April - 30 June 2017	1 January - 30 June 2016	1 April - 30 June 2016
Inventories purchased				
Zer Merkezi Hizmetler A.Ş. (1)	9.942	5.861	8.818	5.269
Arçelik Pazarlama A.Ş. (1)	3.054	-	-	-
Ram Dış Ticaret A.Ş. (1)	2.280	1.349	826	326
Opet Petrolcülük A.Ş. (1)	1.515	775	931	507
Akpa Dayanıklı Tük. Paz. A.Ş. (1)	1.137	452	957	514
Other (1)	1.218	604	1.038	623
Total	19.146	9.041	12.570	7.239

(1) Related parties of parent company

(2) Shareholder

	1 January - 30 June 2017	1 April - 30 June 2017	1 January - 30 June 2016	1 April - 30 June 2016
Services purchased				
Ram Dış Ticaret A.Ş. (1)	8.435	8.435	17.020	7.961
Setur Servis Turistik A.Ş. (1)	3.094	1.342	3.403	687
Ram Sigorta Aracılık Hz. A.Ş. (1) (**)	3.005	3.005	3.015	1.769
Eltek Elektrik Enerji İth. İhr. Top. Tic. A.Ş. (1)	2.073	934	2.350	1.202
Koç Holding A.Ş. (2) (*)	1.841	867	1.435	837
KoçSistem Bilgi ve İletişim Hizm. A.Ş. (1)	1.785	1.111	1.276	691
Otokoç Otomotiv Tic. ve San. A.Ş. (1)	1.760	570	1.221	86
Setair Hava Taşımacılığı ve Hizm. A.Ş. (1)	654	305	187	187
Other (1)	480	136	187	98
Total	23.127	16.705	30.094	13.518

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

(**) It includes paid and accrued premium as of 30 June 2017 and 30 June 2016 in accordance with insurance policies signed between unrelated insurance companies via Ram Sigorta Aracılık Hizmetleri A.Ş. which is an insurance agency.

Banks deposits	30 June 2017	31 December 2016
Yapı ve Kredi Bankası A.Ş. (1)		
- Demand deposits	7	14
- Time deposits	9.878	20.761
Total	9.885	20.775

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NOTE 22 - RELATED PARTY DISCLOSURES (Continued)

Checks and notes in collection	30 June 2017	31 December 2016
Yapı ve Kredi Bankası A.Ş. (1)	5.127	6.977
Total	5.127	6.977

Borrowings	30 June 2017	31 December 2016
Yapı ve Kredi Bankası A.Ş. (1)	407	-
Total	407	-

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

For the periods ended 30 June 2017 and 2016, other income and expense with related parties:

	1 January - 30 June 2017	1 April - 30 June 2017	1 January - 30 June 2016	1 April - 30 June 2016
Exchange gain from trade receivables and payables				
Ram Dış Ticaret A.Ş. (1)	7.109	709	1.846	1.723
Zer Merkezi Hizmetler A.Ş. (1)	33	14	14	6
Yapı Kredi Faktoring (1)	-	-	198	1
KoçSistem Bilgi ve İletişim Hizm. A.Ş. (1)	-	-	17	-
Total	7.142	723	2.075	1.730

	1 January - 30 June 2017	1 April - 30 June 2017	1 January - 30 June 2016	1 April - 30 June 2016
Exchange loss from trade receivables and payables				
Yapı Kredi Faktoring (1)	12.678	6.209	5.668	5.668
Ram Dış Ticaret A.Ş. (1)	3.385	139	1.366	869
Zer Merkezi Hizmetler A.Ş. (1)	87	14	71	15
Total	16.150	6.362	7.105	6.552

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NOTE 22 - RELATED PARTY DISCLOSURES (Continued)

Financial income and expenses related with related parties for the periods ended 30 June 2017 and 2016 are as follows:

	1 January - 30 June 2017	1 April - 30 June 2017	1 January - 30 June 2016	1 April - 30 June 2016
Interest income				
Yapı ve Kredi Bankası A.Ş. (1)	102	4	102	12
Total	102	4	102	12
	1 January - 30 June 2017	1 April - 30 June 2017	1 January - 30 June 2016	1 April - 30 June 2016
Interest expense				
Yapı ve Kredi Bankası A.Ş. (1)	336	138	2.219	1.127
Total	336	138	2.219	1.127

(1) Related parties of parent company

For the periods ended 30 June 2017 and 2016, financial income and expense with related parties:

	1 January - 30 June 2017	1 April - 30 June 2017	1 January - 30 June 2016	1 April - 30 June 2016
Foreign exchange gains				
Yapı ve Kredi Bankası A.Ş. (1)	3.682	2.467	311	187
Total	3.682	2.467	311	187
	1 January - 30 June 2017	1 April - 30 June 2017	1 January - 30 June 2016	1 April - 30 June 2016
Foreign exchange loss				
Yapı ve Kredi Bankası A.Ş. (1)	3.142	1.336	1.847	45
Total	3.142	1.336	1.847	45

(1) Related parties of parent company

Benefits to key management

Salaries and similar benefits provided to the executive management by the Company for the period ended 30 June 2017 are amounted to TL 3.559 thousand (30 June 2016: TL 3.242 thousand). Executives are composed of board of directors members, general manager and assistants of general manager.

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

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

a) Foreign currency risk and related sensitivity analysis

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

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

30 June 2017	TL equivalent (functional currency)	USD	EUR	GBP
1. Trade receivables	625.458	85.429	81.390	10
2a. Monetary financial assets (including cash, bank accounts)	186.737	49.432	3.341	-
2b. Non-monetary financial assets	-	-	-	-
3. Other	7	2	-	-
4. Current assets (1+2+3)	812.202	134.863	84.731	10
5. Trade receivables	15.996	-	3.996	-
6a. Monetary financial assets	-	-	-	-
6b. Non-monetary financial assets	-	-	-	-
7. Other	93	7	17	-
8. Non-current assets (5+6+7)	16.089	7	4.013	-
9. Total assets (4+8)	828.291	134.870	88.744	10
10. Trade payables	(43.779)	(4.859)	(6.658)	(19)
11. Financial liabilities	(134.649)	-	(33.637)	-
12a. Monetary other liabilities	(399.360)	(103.273)	(9.254)	(28)
12b. Non-monetary other liabilities	(21.028)	-	(5.253)	-
13. Current liabilities (10+11+12)	(598.816)	(108.132)	(54.802)	(47)
14. Trade payables	-	-	-	-
15. Financial liabilities	(80.060)	-	(20.000)	-
16a. Monetary other liabilities	-	-	-	-
16b. Non-monetary other liabilities	(887)	-	(222)	-
17. Non-current liabilities (14+15+16)	(80.947)	-	(20.222)	-
18. Total liabilities (13+17)	(679.763)	(108.132)	(75.024)	(47)
19. Net asset/(liability) position of off-balance sheet derivative instruments((19a-19b)	(147.227)	(26.000)	(14.000)	-
19a. Hedged total assets amount	-	-	-	-
19b. Hedged total liabilities amount	(147.227)	(26.000)	(14.000)	-
20. Net foreign currency asset/(liability) position (9+18+19)	1.301	738	(280)	(37)
21. Net foreign currency asset/(liability) position of monetary items (=1+2a+5+6a-10-11-12a-14-15-16a)	170.343	26.729	19.178	(37)
22. Total fair value of financial instruments used for foreign currency hedging	(147.227)	(26.000)	(14.000)	-
23. Export	201.717	26.517	27.034	22
24. Import	223.400	31.138	31.123	886

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

31 December 2016	TL equivalent (functional currency)	USD	EUR	GBP
1. Trade receivables	470.904	76.165	53.968	613
2a. Monetary financial assets (including cash, bank accounts)	189.090	39.445	13.552	-
2b. Non-monetary financial assets	-	-	-	-
3. Other	2	-	-	-
4. Current assets (1+2+3)	659.996	115.610	67.520	613
5. Trade receivables	7.558	-	2.037	-
6a. Monetary financial assets	-	-	-	-
6b. Non-monetary financial assets	-	-	-	-
7. Other	74	3	17	-
8. Non-current assets (5+6+7)	7.632	3	2.054	-
9. Total assets(4+8)	667.628	115.613	69.574	613
10. Trade payables	(25.305)	(2.841)	(4.126)	-
11. Financial liabilities	(491)	-	(132)	-
12a. Monetary other liabilities	(500.458)	(108.505)	(31.937)	(29)
12b. Non-monetary other liabilities	(25.302)	-	(6.820)	-
13. Current liabilities (10+11+12)	(551.556)	(111.346)	(43.015)	(29)
14. Trade payables	-	-	-	-
15. Financial liabilities	(74.198)	-	(20.000)	-
16a. Monetary other liabilities	-	-	-	-
16b. Non-monetary other liabilities	(7.754)	-	(2.090)	-
17. Non-current liabilities (14+15+16)	(81.952)	-	(22.090)	-
18. Total liabilities (13+17)	(633.508)	(111.346)	(65.105)	(29)
19. Net asset/(liability) position of off-balance sheet derivative instruments((19a-19b)	(25.397)	(3.000)	(4.000)	-
19a. Hedged total assets amount	-	-	-	-
19b. Hedged total liabilities amount	(25.397)	(3.000)	(4.000)	-
20. Net foreign currency asset/(liability) position (9+18+19)	8.723	1.267	469	584
21. Net foreign currency asset/(liability) position of monetary items (=1+2a+5+6a-10-11-12a-14-15-16a)	67.100	4.264	13.362	584
22. Total fair value of financial instruments used for foreign currency hedging	(25.397)	(3.000)	(4.000)	-
23. Export	201.335	36.303	29.170	12
24. Import	274.176	51.667	34.730	2.358

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

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

The following table demonstrates the sensitivity to a possible change of 10% in the USD, Euro and GBP exchange rates, with all other variables held constant, on the Group's income before tax as of 30 June 2017 and 31 December 2016:

30 June 2017	Profit before tax Appreciation of foreign currency	Profit before tax Depreciation of foreign currency
<i>In case 10% appreciation of USD against TL:</i>		
1- USD net asset/liability	259	(259)
2- Amount hedged for USD risk (-)	-	-
3- USD net effect (1+2)	259	(259)
<i>In case 10% appreciation of EUR against TL:</i>		
4- EUR net asset/liability	(112)	112
5- Amount hedged for EUR risk (-)	-	-
6- EUR net effect (4+5)	(112)	112
<i>In case 10% appreciation of GBP against TL:</i>		
7- GBP net asset/liability	(17)	17
8- Amount hedged for GBP risk (-)	-	-
9- GBP net effect (7+8)	(17)	17
Total (3+6+9)	130	(130)
31 December 2016	Profit before tax Appreciation of foreign currency	Profit before tax Depreciation of foreign currency
<i>In case 10% appreciation of USD against TL:</i>		
1- USD net asset/liability	446	(446)
2- Amount hedged for USD risk (-)	-	-
3- USD net effect (1+2)	446	(446)
<i>In case 10% appreciation of EUR against TL:</i>		
4- EUR net asset/liability	174	(174)
5- Amount hedged for EUR risk (-)	-	-
6- EUR net effect (4+5)	174	(174)
<i>In case 10% appreciation of GBP against TL:</i>		
7- GBP net asset/liability	252	(252)
8- Amount hedged for GBP risk (-)	-	-
9- GBP net effect (7+8)	252	(252)
Total (3+6+9)	872	(872)

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NOTES TO THE CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS AT 30 JUNE 2017

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

NOTE 24 - FINANCIAL INSTRUMENTS

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

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

The following table presents the Group's assets that are measured at fair value at 30 June 2017 and 31 December 2016:

30 June 2017

Assets	Level 1	Level 2	Level 3	Total
Derivative financial instruments	-	1.004	-	1.004

31 December 2016

Assets	Level 1	Level 2	Level 3	Total
Derivative financial instruments	-	52	-	52

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

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

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

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

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

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NOTES TO THE CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS AT 30 JUNE 2017

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

NOTE 25 - SUBSEQUENT EVENTS

None.

NOT 26 - OTHER MATTERS WHICH ARE SIGNIFICANT TO THE CONSOLIDATED FINANCIAL STATEMENTS OR WHICH SHOULD BE DISCLOSED FOR THE PURPOSE OF TRUE AND FAIR INTERPRETATION OF THE CONSOLIDATED FINANCIAL STATEMENTS.

None.

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