

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

**CONVENIENCE TRANSLATION INTO ENGLISH OF
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD 1 JANUARY - 30 JUNE 2019**

(ORIGINALLY ISSUED IN TURKISH)

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY - 30 JUNE 2019

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OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

CONSOLIDATED BALANCE SHEETS AS OF 30 JUNE 2019 AND 31 DECEMBER 2018

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

	Notes	(Reviewed) 30 June 2019	(Audited) 31 December 2018
Assets			
Current assets			
Cash and cash equivalents	4	107,519	173,017
Trade receivables	8	1,394,130	870,457
<i>Due from related parties</i>	21	492,648	399,044
<i>Due from other parties</i>	8	901,482	471,413
Other receivables		432	304
Inventories	9	774,215	690,013
Derivative financial instruments	7	4,452	297
Prepaid expenses	13	9,612	7,470
Other current assets	13	85,450	60,923
Total current assets		2,375,810	1,802,481
Non-current assets			
Trade receivables	8	-	7,930
Other receivables		880	707
Investments accounted for using the equity method	5	27,454	13,305
Property, plant and equipment	10	110,166	107,603
Right of use assets	10	13,408	-
Intangible assets	11	317,624	280,656
Deferred income tax asset	19	97,339	90,064
Total non-current assets		566,871	500,265
Total assets		2,942,681	2,302,746

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

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

CONSOLIDATED BALANCE SHEETS AS OF 30 JUNE 2019 AND 31 DECEMBER 2018

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

	Notes	(Reviewed) 30 June 2019	(Audited) 31 December 2018
Liabilities			
Current liabilities			
Short-term borrowings	6	216,533	-
<i>Bank borrowings</i>	6	211,201	-
<i>Lease liabilities</i>	6	5,332	-
Short-term portion of long-term borrowings	6	358,117	207,281
<i>Bank borrowings</i>	6	358,117	207,281
Trade payables	8	259,393	269,459
<i>Due to related parties</i>	21	15,179	25,346
<i>Due to other parties</i>	8	244,214	244,113
Employee benefit obligations	13	13,898	30,344
Other payables		56,056	43,292
Obligations arising from customer contracts	13	260,461	196,791
Government grants		896	1,283
Short-term provisions	12	147,695	104,281
<i>Provisions for employee benefits</i>	12	14,104	10,443
<i>Other provisions</i>	12	133,591	93,838
Other current liabilities	13	16,733	15,409
Total current liabilities		1,329,782	868,140
Non-current liabilities			
Long-term borrowings	6	552,103	500,266
<i>Bank borrowings</i>	6	544,782	500,266
<i>Lease liabilities</i>	6	8,321	-
Government grants		972	1,124
Long-term provisions	12	43,198	38,235
<i>Provisions for employee benefits</i>	12	43,198	38,235
Obligations arising from customer contracts	13	529,399	505,395
Total non-current liabilities		1,126,672	1,045,020
Total liabilities		2,456,454	1,913,160
Equity			
Paid-in share capital		24,000	24,000
Inflation adjustment on share capital		52,743	52,743
Restricted reserves		73,758	66,678
Accumulated other comprehensive income and expense that will not be reclassified to statement of profit or loss		(7,470)	(3,586)
<i>Defined benefit plans remeasurement losses</i>		(7,470)	(3,586)
Accumulated other comprehensive income and expense that may be reclassified to statement of profit or loss		(9,808)	12,997
<i>Currency translation differences</i>		(9,808)	12,997
Retained earnings		157,674	72,418
Net (loss)/profit for the period		195,330	164,336
Total equity		486,227	389,586
Total liabilities and equity		2,942,681	2,302,746

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

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

CONSOLIDATED STATEMENTS OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME FOR THE PERIODS ENDED AT JUNE 2019 AND 2018

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

	Notes	Reviewed		Reviewed	
		1 January - 30 June 2019	1 April - 30 June 2019	1 January - 30 June 2018	1 April - 30 June 2018
Net sales	14	1,283,896	864,826	488,159	235,774
Cost of sales (-)	14	(805,836)	(490,377)	(385,971)	(188,648)
GROSS PROFIT		478,060	374,449	102,188	47,126
Marketing expenses (-)	15	(196,970)	(125,069)	(103,144)	(60,843)
General administrative expenses (-)	15	(58,122)	(32,900)	(39,364)	(21,220)
Research and development expenses (-)	15	(28,507)	(14,542)	(24,453)	(12,151)
Other operating income	16	170,606	86,500	583,130	435,872
Other operating expenses (-)	16	(98,802)	(43,357)	(557,802)	(417,940)
OPERATING PROFIT		266,265	245,081	(39,445)	(29,156)
Income from investing activities		105	(6)	(1)	(1)
Share of profit/loss of investments accounted for using the equity method, net		13,910	14,947	-	-
OPERATING INCOME BEFORE FINANCIAL EXPENSES		280,280	260,022	(39,446)	(29,157)
Financial income	17	18,114	4,984	11,392	2,495
Financial expense (-)	18	(109,245)	(57,570)	(57,966)	(28,453)
PROFIT BEFORE TAX		189,149	207,436	(86,020)	(55,115)
Tax income/(expense) from continued operations					
Current tax expense (-)	19	-	-	(113)	(113)
Deferred tax income	19	6,181	(1,154)	7,414	4,234
PROFIT FOR THE PERIOD		195,330	206,282	(78,719)	(50,994)
Items that will not be reclassified to statement of profit or loss					
Remeasurement (losses)/gains		(4,978)	436	(1,228)	284
Deferred tax income/(expense)		1,094	(96)	270	(63)
Items that may be reclassified to statement of profit or loss					
Currency translation differences of investments Accounted for using the equity method		239	(454)	-	-
Currency translation differences		(23,044)	(18,091)	910	512
Other comprehensive income		(26,689)	(18,205)	(48)	733
TOTAL COMPREHENSIVE INCOME		168,641	188,077	(78,767)	(50,261)
Earnings per share (Kr)	20	0.814	0.860	(0.328)	(0.212)

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

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE PERIODS ENDED AT 30 JUNE 2019 AND 2018

(Amounts expressed in thousand Turkish Lira (“TRY”) 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	Accumulated other comprehensive income and expense that may be reclassified to statement of profit or loss	Retained earnings	Net income for the period	Total equity
					Remeasurement losses on defined benefit plans	Currency translation differences			
30 June 2018	Opening Balance	24,000	52,743	59,798	(4,880)	2,396	50,074	99,423	283,554
	Transfers	-	-	6,880	-	-	92,543	(99,423)	-
	Dividends paid	-	-	-	-	-	(70,000)	-	(70,000)
	Total comprehensive income	-	-	-	(1,179)	398	-	(27,725)	(28,506)
	Closing balances	24,000	52,743	66,678	(6,059)	2,794	72,617	(27,725)	185,048
30 June 2019	Opening Balance	24,000	52,743	66,678	(3,586)	12,997	72,418	164,336	389,586
	Transfers	-	-	7,080	-	-	157,256	(164,336)	-
	Dividends paid	-	-	-	-	-	(72,000)	-	(72,000)
	Total comprehensive income	-	-	-	(3,884)	(22,805)	-	195,330	168,641
	Closing balances	24,000	52,743	73,758	(7,470)	(9,808)	157,674	195,330	486,227

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

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE PERIODS 30 JUNE 2019 AND 2018

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

	Notes	(Reviewed) 1 January – 30 June 2019	(Reviewed) 1 January – 30 June 2018
ASH FLOWS FROM OPERATING ACTIVITIES		(190,205)	(107,864)
Net profit for the period		195,330	(78,719)
Adjustments to reconcile income before taxes to net cash flows from operating activities:		160,791	115,130
Depreciation and amortization	10	39,206	30,079
Adjustments in relation to impairment:		4,449	5,343
- Provision for doubtful receivables	8	3,506	4,960
- Provision for inventories	9	943	383
Adjustments in relation to provision:		59,764	33,458
- Provision for employee benefits	12	3,993	6,008
- Warranty provision expenses	12	55,771	27,450
Adjustments in relation to interest income and expenses:		71,463	44,720
- Interest income on time deposits	17	(1,217)	(1,875)
- Interest expense on borrowings	18	72,680	46,595
Adjustments in relation to unrealised foreign exchange gains and losses		18,929	5,938
Adjustments in relation to fair value gains and losses		(19,005)	(4,409)
- Fair value losses/(gains) on financial derivative instruments, net		(19,005)	(4,409)
Adjustments for undistributed profits of investments accounted for using Equity method		(13,910)	-
- Adjustments for undistributed profits of joint ventures		(13,910)	-
Adjustments in relation to gains or losses on sales of property, plant and İle equipment		(105)	1
- Gain on sale of property, plant and equipments		(105)	1
Changes in net working capital		(525,686)	(121,326)
Change in trade receivables		(519,550)	30,589
Change in due from customers on contract works		-	(93,654)
Change in inventories		(85,145)	(190,193)
Change in trade payables		(10,066)	75,390
Other changes		89,075	56,542
- Changes in other operating assets		(26,669)	(44,695)
- Changes in other operating liabilities		115,744	101,237
Cash flows from operations		(169,565)	(84,915)
Payments in relation to employee benefits			
	12	(4,008)	(2,617)
Payments in relation to other provisions	12	(31,482)	(26,014)
Other cash collections/(payments)		14,850	5,682
CASH FLOWS FROM INVESTING ACTIVITIES		(91,727)	(49,731)
Proceeds from sale of property, plant and equipment and intangible assets			
		476	6
- Proceeds from sale of property, plant and equipment		476	6
Cash outflows due to purchase of property, plant and equipment and intangible assets		(92,203)	(49,737)
- Purchase of property, plant and equipment	10	(26,893)	(10,838)
- Purchase of intangible assets	11	(65,310)	(38,899)
CASH FLOWS FROM FINANCING ACTIVITIES		239,239	(43,611)
Cash inflow from to borrowings		1,054,553	786,687
- Proceeds from bank borrowings		1,054,553	786,687
Cash outflow due to repayment of borrowings		(685,098)	(732,716)
- Repayments of borrowings		(685,098)	(732,716)
- Cashoutflows on debt payments from leasing agreements		(4,925)	-
Dividends paid		(72,000)	(70,000)
Interest paid		(54,508)	(29,457)
Interest received		1,217	1,875
NET DECREASE IN CASH AND CASH EQUIVALENTS BEFORE THE EFFECT OF CURRENCY TRANSLATION DIFFERENCES		(42,693)	(201,206)
Currency translation difference on cash and cash equivalents		(22,805)	910
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		(65,498)	(200,296)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	4	173,017	228,958
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	4	107,519	28,662

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

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED AT 30 JUNE 2019

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

NOTE 1 - GROUP’S ORGANIZATION AND NATURE OF OPERATIONS

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

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

The registered addresses of the Company are as follows:

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

Plant: Atatürk Cad. No: 6 54580 Arifiye/Sakarya

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

Subsidiaries	Country	Main activity	Field activity	of
Otokar Europe SAS	France	Sales and marketing	Automotive	
Otokar Land Systems Limited	United Arab Emirates	Sales and marketing	Automotive	
Otokar Europe Filiala Bucuresti SRL	Romania	Sales and marketing	Automotive	
Subsidiaries	Country	Main activity	Field activity	of
Al Jasoor Heavy Vehicle Industry LLC	United Arab Emirates	Sales and marketing	Automotive	

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

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

	30 June 2019		31 December 2018	
	Period end	Average	Period end	Average
Total personnel number	1,981	2,023	1,966	2,044

The consolidated financial statements for the year ended 30 June 2019 were authorized for issue and signed by the Board of Directors of Otokar on 31 July 2019. The accompanying consolidated financial statements may be amended by the General Assembly.

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED AT 30 JUNE 2019

(Amounts expressed in thousand Turkish Lira (“TRY”) 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 2019, 27.45% of the shares are quoted on the BIST.

As of 30 June 2019, 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 A.Ş. is controlled by Koç Holding A.Ş.

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

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

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

NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

2.1 Basis of presentation of consolidated financial statements

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

In accordance with the Turkish Accounting Standard No: 34 “Interim Financial Reporting”, entities are allowed to prepare a complete or condensed set of interim financial statements. In this respect, the Group has preferred to prepare condensed consolidated financial statements in the interim periods. Accordingly, these interim condensed consolidated financial statements should be read in conjunction with the annual consolidated financial statements for the year ended 31 December 2018.

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

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED AT 30 JUNE 2019

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

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

2.1 Basis of presentation of consolidated financial statements (Continued)

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

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

Functional and presentation currency

Items included in the consolidated financial statements of the Subsidiaries and Joint Ventures of the Group are measured using the currency of the primary economic environment in the entity operates (“the functional currency”). The consolidated financial statements are presented in TRY, which is the Company’s functional and presentation currency.

2.2 Accounting policies and changes and errors in accounting estimates

The Group has applied accounting policy changes resulting from the first time adoption of “IFRS 16 – Leases” effective from 1 January 2019, in accordance with the transition requirements of the related standard.

The impacts of the accounting policy changes and first time adoption are as follows:

IFRS 16 “Leases”

The Group as the lessee

At inception of a contract, the Group assess whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Group considers the following matters when assessing whether the agreement transfers the right to control the use of an identified asset for a limited period of time:

- the contract contains an identified asset: – this may be specified explicitly or implicitly.,
- the asset should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, the asset is not identified.
- the Group has the right to obtain substantially all of the economic benefits from the use of an asset throughout the period of use; and
- the Group has the right to direct use of the asset. The Group concludes to have the right of use, when it is predetermined how and for what purpose the Group will use the asset. The Group has the right to direct use of asset if either:
 - i. the Group has the right to operate the asset (or to direct others to operate the asset in a manner that it determines) throughout the period of use, without the supplier having the right to change those operating instructions; or
 - ii. the customer designed the asset (or specific aspects of the asset) in a way that predetermines how and for what purpose the asset will be used throughout the period of use.

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED AT 30 JUNE 2019

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

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

2.2 Accounting policies and changes and errors in accounting estimates (Continued)

At the commencement date, the Group recognize a right-of-use asset and a lease liability in financial statements.

Right of use asset

The cost of the right-of-use asset shall comprise:

- a) the amount of the initial measurement of lease liability,
- b) any lease payments made at or before the commencement date, less any lease incentives received,
- c) any initial direct costs incurred by the lessee., and
- d) costs incurred by the Group relating to the restoration of the underlying asset so that it is required by the terms and conditions of the lease (excluding costs incurred for inventory production)

To apply a cost model, the Group measure the right-of-use asset at cost:

- a) less any accumulated depreciation and any accumulated impairment losses; and
- b) adjusted for any remeasurement of the lease liability

The Group apply the depreciation requirements in IAS 16 Property, Plant and Equipment in depreciating the right-of-use asset, subject to the requirements.

The Group apply IAS 36 Impairment of Assets to determine whether the right-of-use asset is impaired and to account for any impairment loss identified.

Lease liability

At the commencement date, The Group measure the lease liability at the present value of the lease payments that are not paid at that date. The lease payments are discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the Group use the lessee’s incremental borrowing rate.

At the commencement date, the lease payments included in the measurement of the lease liability comprise the following payments for the right to use the underlying asset during the lease term that are not paid at the commencement date:

- a) fixed payments, less any lease incentives receivable;
- b) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- c) payments of penalties for terminating the lease, if the lease term reflects the Group exercising an option to terminate the lease.

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED AT 30 JUNE 2019

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

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

2.2 Accounting policies and changes and errors in accounting estimates (Continued)

After the commencement date, the Group measure the lease liability by:

- a) increasing the carrying amount to reflect interest on the lease liability;
- b) reducing the carrying amount to reflect the lease payments made; and
- c) remeasuring the carrying amount to reflect any reassessment or lease modifications, or to reflect revised in-substance fixed lease payments. The Group reflects the restatement amount of the lease liability to the financial statements as revised in the presence of the right of use.

Extension and termination options

Lease liability is determined considering the extension and termination options in the agreements. The majority of extension and termination options held are by the Group and by the respective lessor. In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee.

Variable lease payments

Some property leases of the Group contain variable payments. Variable lease payments which are not in TFRS 16 are recognised in profit or loss in the period.

Exemptions and simplifications

Short-term lease payments and payments for leases of low-value assets like IT equipments (mainly printers, laptops and mobile phones etc.) are not included in the measurement of the lease liabilities in the scope of TFRS 16. Lease payments of these contracts are continued to be recognised in profit or loss in the related period.

The Group’s leasing activities

All the leasings of the Group as lessor are operational leasings. For operational leasings, leased assets are classified under investment properties, tangible assets or other current assets in the consolidated balance sheet and rental income is accounted in the consolidated income statement in equal amounts for the leasing period. Rental income is accounted in the consolidated income statement for the leasing period on a straight-line basis.

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED AT 30 JUNE 2019

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

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

2.2 Accounting policies and changes and errors in accounting estimates (Continued)

Transition to TFRS 16 “Leases”

The Company applied TFRS 16, “Leases”, which superseded TAS 17, “Leases”, and accounted in the consolidated financial statements by using “cumulative effect method” on the transition date of 1 January 2019. In accordance with the simplified transition method defined in standard, no restatement has been required in the comparative information of the financial statement and has no impact on retained earnings.

On first time adoption of TFRS 16 “Leases”, the Group recognised lease liabilities in relation to leases which had previously been classified as ‘operating leases’ under the principles of TAS 17 “Leases” before 1 January 2019. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee’s incremental borrowing rate as of the transition date. The right to use assets are accounted for at an amount equal to the lease obligations (adjusted for the amount of prepaid or accrued lease payments) within the scope of simplified transition application in the related standard.

The reconciliation of the operating lease agreements followed under TAS 17 prior to the first application date and the lease liabilities recognized under TFRS 16 in the financial statements as of 1 January 2019 is as follows

	1 January 2019
- Short-term leases (-)	-
- Low-value leases (-)	(71)
- Contracts reassessed as service agreements (-)	-
- Adjustments as a result of a different treatment of extension and termination options	-
Total lease liability recognised under TFRS 16 (non- discounted)	20,477
Total lease liability recognised under TFRS 16 (discounted)	17,855
- Short-term lease liability	7,647
- Long-term lease liability	10,208

The weighted average Group’s incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 6% for Euro and 25% for TRY .

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED AT 30 JUNE 2019

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

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

2.2 Accounting policies and changes and errors in accounting estimates (Continued)

The details of the right-of-use assets recognised by each asset type in financial statements as of 30 June 2019 and 1 January 2019 are as follows:

	30 June 2019	1 January 2019
Building	7,805	9,633
Vehicles	5,232	7,801
Furniture and fixtures	371	421
Total right-of-use assets	13,408	17,855

The practical expedients applied in transition

Within the scope of the transition, the following practices defined in TFRS 16 are adopted within the scope of the Company policies.

- The leases which have a lease term of 12 months or less are exempted. Although the rental period is 1 year or less; The Company has an option to extend the lease and is reasonably certain that it will use the extension right option (for example, if there is a significant amount of private cost investment related to the asset subject to the leasing and that the investment has been amortized for more than 1 year). the agreement is included in the scope of TFRS 16.
- Low value leases mainly printer, laptop, mobile phone, etc. information technology equipment) are excluded.
- A single discount rate has been applied to a portfolio of leases with reasonably similar characteristics (such as leases with similar lease term for a similar class of assets in a similar economic environment).

New and revised Turkish Accounting Standards

- New standards, amendments and interpretations to existing standards as of 30 June 2019:**

Explanations on the effects of the new TAS / TFRS on financial statements:

- Title of TAS / TFRS,
- The accounting policy change is made in accordance with the relevant transition provisions, if any,
- Disclosure of changes in accounting policy,
- Explanation of transition provisions, if any,
- The effects of the transition provisions, if any, in the following periods,

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

2.2 Accounting policies and changes and errors in accounting estimates (Continued)

- f) As far as practicable, adjustment amounts for the current and each prior period presented:
- i. Provide for each affected financial statement item and
 - ii. Ordinary shares and diluted earnings per share should be recalculated if the standard 33 TAS 33, Earnings per Share ”applies to the Company.
- g) The correction amounts, if possible, of the periods preceding the periods not presented; and
- h) If retrospective application is not possible for any period or periods, the events leading to this situation should be explained and the date and manner of the change in accounting policy should be explained.
- **Amendment to IFRS 9, ‘Financial instruments’**; effective from annual periods beginning on or after 1 January 2019. This amendment confirm that when a financial liability measured at amortised cost is modified without this resulting in de-recognition, a gain or loss should be recognised immediately in profit or loss. The gain or loss is calculated as the difference between the original contractual cash flows and the modified cash flows discounted at the original effective interest rate. This means that the difference cannot be spread over the remaining life of the instrument which may be a change in practice from IAS 39.
 - **Amendment to IAS 28, ‘Investments in associates and joint venture’**; effective from annual periods beginning on or after 1 January 2019. These amendments clarify that companies account for long-term interests in associate or joint venture to which the equity method is not applied using IFRS 9.
 - **IFRS 16, ‘Leases’**; effective from annual periods beginning on or after 1 January 2019. The effects of these amendments on the financial position and performance of the Group are explained under the tittle of “TFRS 16 Leases”.
 - **IFRIC 23, ‘Uncertainty over income tax treatments’**; effective from annual periods beginning on or after 1 January 2019. This IFRIC clarifies how the recognition and measurement requirements of IAS 12 ‘Income taxes’, are applied where there is uncertainty over income tax treatments. The IFRS IC had clarified previously that IAS 12, not IAS 37 ‘Provisions, contingent liabilities and contingent assets’, applies to accounting for uncertain income tax treatments. IFRIC 23 explains how to recognise and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment. An uncertain tax treatment is any tax treatment applied by an entity where there is uncertainty over whether that treatment will be accepted by the tax authority. For example, a decision to claim a deduction for a specific expense or not to include a specific item of income in a tax return is an uncertain tax treatment if its acceptability is uncertain under tax law. IFRIC 23 applies to all aspects of income tax accounting where there is an uncertainty regarding the treatment of an item, including taxable profit or loss, the tax bases of assets and liabilities, tax losses and credits and tax rates.

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

2.2 Accounting policies and changes and errors in accounting estimates (Continued)

- **Annual improvements 2015-2017;** effective from annual periods beginning on or after 1 January 2019. These amendments include minor changes to:
 - IFRS 3, ‘Business combinations’, – a company remeasures its previously held interest in a joint operation when it obtains control of the business.
 - IFRS 11, ‘Joint arrangements’, – a company does not remeasure its previously held interest in a joint operation when it obtains joint control of the business.
 - IAS 12, ‘Income taxes’ – a company accounts for all income tax consequences of dividend payments in the same way.
 - IAS 23, ‘Borrowing costs’ – a company treats as part of general borrowings any borrowing originally made to develop an asset when the asset is ready for its intended use or sale.
- **Amendments to IAS 19, ‘Employee benefits’ on plan amendment, curtailment or settlement’;** effective from annual periods beginning on or after 1 January 2019. These amendments require an entity to:
 - use updated assumptions to determine current service cost and net interest for the remainder of the period after a plan amendment, curtailment or settlement; and
 - recognise in profit or loss as part of past service cost, or a gain or loss on settlement, any reduction in a surplus, even if that surplus was not previously recognised because of the impact of the asset ceiling.
- b) ***Standards, amendments and interpretations that are issued but not effective as at 30 June 2019:***
 - **Amendments to IAS 1 and IAS 8 on the definition of material;** effective from Annual periods beginning on or after 1 January 2020. These amendments to IAS 1, ‘Presentation of financial statements’, and IAS 8, ‘Accounting policies, changes in accounting estimates and errors’, and consequential amendments to other IFRSs:
 - i) use a consistent definition of materiality throughout IFRSs and the Conceptual Framework for Financial Reporting;
 - ii) clarify the explanation of the definition of material; and
 - iii) incorporate some of the guidance in IAS 1 about immaterial information.
 - **Amendments to IFRS 3 - definition of a business;** effective from Annual periods beginning on or after 1 January 2020. This amendment revises the definition of a business. According to feedback received by the IASB, application of the current guidance is commonly thought to be too complex, and it results in too many transactions qualifying as business combinations.
 - **IFRS 17, ‘Insurance contracts’;** effective from annual periods beginning on or after 1 January 2021. This standard replaces IFRS 4, which currently permits a wide variety of practices in accounting for insurance contracts. IFRS 17 will fundamentally change the accounting by all entities that issue insurance contracts and investment contracts with discretionary participation features.

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

2.3 Summary of significant accounting policies

Group accounting

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

Subsidiaries

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

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

Disposal of a subsidiary

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

The table below sets out the subsidiaries of the Company and shows the total interest of the Company in these companies at 30 June 2019 and 31 December 2018:

Subsidiaries	2019		2018	
	Direct and indirect ownership (%)	Proportion of effective interest (%)	Direct and indirect ownership (%)	Proportion of effective interest (%)
Otokar Europe SAS	100	100	100	100
Otokar Land Systems LLC	100	100	100	100
Otokar Europe Filiala Bucuresti SRL	100	100	-	-
Joint ventures	Direct and indirect ownership (%)	Proportion of effective interest (%)	Direct and indirect ownership (%)	Proportion of effective interest (%)
Al Jasoor Heavy Vehicle Industry LLC	49.00	49.00	49.00	49.00

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED AT 30 JUNE 2019

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NOTE 3 - SEGMENT REPORTING

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

Since Chief Executive Decision Makers (composed of key management, board members, general manager and assistant general managers) do not monitor cost of sales, operating expenses and financial expenses, the products are only monitored based on revenue (Note 14). Thus, segment reporting is not performed.

NOTE 4 - CASH AND CASH EQUIVALENTS

	30 June 2019	31 December 2018
Banks		
- Time deposits	51,448	134,463
- Demand deposits	55,490	37,799
Cheques and notes receivable	452	596
Other	129	159
	107,519	173,017

As of 30 June 2019, TRY 51,448 thousand of the total amount of time deposits amounting to TRY 46,074 thousand is denominated in foreign currency and the annual effective interest rate is 1.19% and has a maturity of 3 days. The annual effective interest rate of the remaining TRY 5,374 thousand is 23.75% and has a maturity of 3 days.

(As of 31 December 2018, TRY 134,463 thousand of the total amount of time deposits amounting to TRY 120,917 thousand is denominated in foreign currency and the annual effective interest rate is 0.24% and has a maturity of 2 days. The annual effective interest rate of the remaining TRY13,546 thousand is 21.75% and has a maturity of 2 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 2019, the Group has no restricted bank deposits (31 December 2018: TRY450 thousand).

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED AT 30 JUNE 2019

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NOTE 5 - INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

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

Joint ventures	2019	
	(%)	Amount
Al Jasoor Heavy Vehicle Industry LLC	49.00	27,454

The movement of joint venture as of 30 June 2019 and 2018 is as follows:

	2019	2018
1 January	13,305	-
Shares of profit/(loss)	13,910	-
Currency translation differences	239	-
30 June	27,454	-

The summary of the financial statements of Al Jasoor Heavy Vehicle Industry LLC, valued by the equity method, as of 30 June 2019 is as follows:

	30 June 2019	31 December 2018
Total assets	1,274,105	1,547,656
Total liabilities	1,217,037	1,520,502
Currency translation differences	(1,039)	-
Net assets	56,029	27,154
Ownership of the Group	%49	%49
Net asset share of the Group	27,454	13,305

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NOTE 6 - BORROWINGS

Short term borrowings (*)

30 June 2019	Maturities	Annual effective interest rate (%)	TRY equivalent
Bank borrowings			
Denominated in EUR	1 July 2019	2.00-2.60	132,479
Denominated in USD	1 July 2019	5.00-5.90	77,725
Denominated in TRY	1 July 2019	0.00	997
			211,201
Lease liabilities			
Denominated in TRY	-	25.00	1,286
Denominated in EUR	-	6.00	89
Denominated in USD	-	6.00	3,957
			5,332
Total short term borrowings			216,533

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

Bank borrowings	Maturities	Annual effective interest rate (%)	TRY equivalent
Denominated in TRY	-	16.27-24.05	356,407
Denominated in EUR	-	3.45-3.50	1,710
			358,117

(*) Bearing fixed interest rate.

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED AT 30 JUNE 2019

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NOTE 6 – BORROWINGS (Continued)

30 June 2019

Long-term bank borrowings (*)

Bank borrowings	Maturities	Annual effective interest rate (%)	TRY equivalent
Denominated in EUR	3 September 2020- 22 April 2021	3.45-3.50	294,782
Denominated in TRY	7 September 2020- 5 February 2021	23.62-33.55	250,000
			544,782

(*) Bearing fixed interest rate.

Lease borrowings

Denominated in TRY	-	25.00	922
Denominated in EUR	-	6.00	38
Denominated in USD	-	6.00	7,361
			8,321
Total long term borrowings			553,103

31 December 2018

	Maturities	Annual effective interest rate (%)	TRY equivalent
Principals and interest accruals on the short-term portion of long-term borrowings			
Denominated in TRY		14.27-14.44	207,281
			207,281

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED AT 30 JUNE 2019

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NOTE 6 – BORROWINGS (Continued)

31 December 2018

	Maturities	Annual effective interest rate (%)	TRY equivalent
Long-term bank borrowings (*)			
Denominated in TRY	9 March 2020 - 7 January 2021	16.28-33.55	440,000
Denominated in EUR	6 January 2020	3.85	60,266
			500,266

(*) Bearing fixed interest rate

As of 30 June 2019, the Group has not provided any guarantees for the borrowings (31 December 2018: None).

	30 June 2019	31 December 2018
1 January	725,331	703,658
Financial liabilities received during the period	1,054,548	1,363,530
Principal payments (-)	(690,023)	(1,394,191)
Change in interest accruals	18,968	17,267
Change in exchange rate differences	18,929	17,283
1,127,753		707,547

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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.

30 June 2019	Contract amount	Current period contract maturity	Fair value assets
Forward transactions	1,236,185	5 July 2019 - 19 July 2019	4,452
Short-term derivative financial instruments	1,236,185		4,452
Total derivative financial instruments	1,236,185		4,452

31 December 2018	Contract amount	Current period contract maturity	Fair value assets
Forward transactions	940,306	10 January 2019 - 7 February 2019	297
Short-term derivative financial instruments	940,306		297
Total derivative financial instruments	940,306		297

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED AT 30 JUNE 2019

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NOTE 8 - TRADE RECEIVABLES AND PAYABLES

Trade receivables

	30 June 2019	31 December 2018
Trade receivables, net	848,344	426,547
Notes receivables, net	99,737	88,378
	948,081	514,925
Less: provision for doubtful receivables	(46,599)	(43,512)
Short-term trade receivables	901,482	471,413
Trade receivables from related parties (Note 21)	492,648	399,044
Short-term trade receivables	1,394,130	870,457
Long-term notes receivable, net	-	7,930
Long-term trade receivables	-	7,930

As of 30 June 2019, the average maturity of trade receivables is between 60-90 days (excluding notes receivables) (31 December 2018 60-90 days).

As of 30 June 2019 and 31 December 2018 the fair values of trade receivables approximate to their carrying values due to short term maturity of those receivables.

Guarantees received for trade receivables

Receivables of the Group are mainly composed of minibus and bus sales to dealers and trailer and armored vehicle sales. As of 31 December 2018, the total trade receivable from dealers amounting to TRY70,568 thousand (31 December 2018: TRY59,217 thousand), after provision provided for doubtful receivables, has been secured by mortgages and guarantees at the amount of TRY70,611 thousand (31 December 2018: TRY59,635 thousand).

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

30 June 2019	Trade receivables
1- 30 day past due	-
1- 3 month past due	-
3- 12 month past due	-
1- 5 year past due	262
Over 5 years past due	-
Total	262
Amount secured with guarantees	262

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NOTE 8 - TRADE RECEIVABLES AND PAYABLES (Continued)

31 December 2018	Trade receivables
1- 30 day past due	-
1- 3 month past due	-
3- 12 month past due	-
1- 5 year past due	255
Over 5 years past due	-
Total	255
Amount secured with guarantees	255

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 2019 and 31 December 2018 are as follows:

	2019	2018
1 January	43,512	33,985
Collections	(419)	(362)
Currency translation differences	151	227
Increase during the year	3,355	4,733
30 June	46,599	38,583

Trade payables

	30 June 2019	31 December 2018
Trade payables, net	243,720	243,707
Notes payables, net	494	406
Short-term other trade payables	244,214	244,113
Trade payables to related parties (Note 21)	15,179	25,346
Short-term trade payables	259,393	269,459

As of 30 June 2019, average payment term for trade payables is 45-60 days (31 December 2018: 45-60 days).

As the average collection period of the Group's payables is short-term as of 30 June 2019 and 31 December 2018, the fair values of trade payables converge to the carrying values.

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NOTE 9 - INVENTORIES

	30 June 2019	31 December 2018
Raw material	286,731	295,244
Semi-finished goods	114,431	23,747
Finished goods	154,399	168,122
Merchandise goods	127,239	111,391
Goods in transit	98,350	97,501
Impairment for inventories (*)	(6,935)	(5,992)
	774,215	690,013

(*) TRY472 thousand of impairment is related to semi-finished goods (31 December 2018: TRY126 thousand), TRY579 thousand is related to merchandises (31 December 2018: TRY562 thousand) and TRY5,884 thousand is related to raw materials (31 December 2018: TRY5,304 thousand). The impairment has been accounted for under cost of sales.

NOTE 10 - PROPERTY, PLANT AND EQUIPMENT

Movements of property, plant and equipment and related accumulated depreciation for the periods ended 30 June 2019 and 30 June 2018:

	1 January 2019	Additions	Currency translation differences	Disposals	Transfers	30 June 2019
Cost:						
Land	37,457	-	-	(20)	-	37,437
Land improvements	8,583	-	-	-	-	8,583
Buildings	58,489	490	-	-	-	58,979
Machinery and equipment	106,570	1,917	96	-	-	108,583
Motor vehicles	9,345	786	-	(127)	-	10,004
Furniture and fixtures	38,143	4,646	62	(3)	-	42,848
Leasehold improvements	1,089	26	-	-	-	1,115
Construction in process	4	1,244	-	-	-	1,248
	259,680	9,109	158	(150)	-	268,797
Accumulated depreciation						
Land improvements	(4,432)	(151)	-	-	-	(4,583)
Land improvements	(44,870)	(1,306)	-	-	-	(46,176)
Buildings	(81,205)	(2,687)	(63)	-	-	(83,955)
Machinery and equipment	(5,483)	(351)	-	31	-	(5,803)
Motor vehicles	(15,245)	(1,956)	(35)	1	-	(17,235)
Special costs	(842)	(37)	-	-	-	(879)
	(152,077)	(6,488)	(98)	32	-	(158,631)
Net book value	107,603					110,166

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED AT 30 JUNE 2019

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NOTE 10 - PROPERTY, PLANT AND EQUIPMENT (Continued)

	1 January 2018	Additions	Currency translation differences	Disposals	Transfers	30 June 2018
Cost:						
Land	37,457	-	-	-	-	37,457
Land improvements	12,355	-	-	-	-	12,355
Buildings	60,729	17	-	-	111	60,857
Machinery and equipment	110,616	2,833	136	-	1,145	114,730
Motor vehicles	9,608	950	-	-	-	10,558
Furniture and fixtures	38,938	1,916	55	(109)	14	40,814
Leasehold improvements	2,131	146	-	-	-	2,277
Construction in process	1,454	4,784	-	-	(1,270)	4,968
	273,288	10,646	191	(109)	-	284,016
Accumulated depreciation						
Land improvements	(7,962)	(151)	-	-	-	(8,113)
Buildings	(44,651)	(1,292)	-	-	-	(45,943)
Machinery and equipment	(90,556)	(2,403)	(82)	-	-	(93,041)
Motor vehicles	(5,403)	(364)	-	-	-	(5,767)
Furniture and fixtures	(21,911)	(1,204)	(42)	102	-	(23,055)
Special costs	(1,796)	(124)	-	-	-	(1,920)
	(172,279)	(5,538)	(124)	102	-	(177,839)
Net book value	101,009					106,177

The distribution of depreciation and amortization expenses of tangible and intangible assets for the periods ended 30 June 2019 and 2018 are as follows:

	30 June 2019	30 June 2018
Research and development expenses	27,434	23,705
Cost of sales	2,862	2,069
Depreciation on inventories	1,531	1,066
Activities under development	1,179	929
General administrative expenses	1,086	1,509
Selling and marketing expenses	738	645
Foreign currency translation	98	124
Costs related to uncompleted contracts	-	32
Total	34,928	30,079

RIGHTS OF USE ASSETS

During the period, the Group has capitalized on the right of use assets of TRY 17,785. As of 30 June 2019, net book value of the right of use assets is TRY 13,408. As of 30 June 2019, assets and accumulated depreciation amounts are as follows:

As of 30 June 2019	Buildings	Vehicles	Furniture and fixtures	Total
Costs	9,497	7,802	486	17,785
Accumulated depreciation	(1,692)	(2,570)	(115)	(4,377)
	7,805	5,232	371	13,408

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED AT 30 JUNE 2019

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NOTE 11 - INTANGIBLE ASSETS

Movements of intangible assets and related accumulated amortisation for the periods ended 30 June 2019 and 30 June 2018:

	1 January 2019	Additions	Currency translation differences	Disposals	Tranfers	30 June 2019
Cost						
Other Intangible Assets	18,249	1,022	-	-	-	19,271
Development Costs	427,570	-	-	-	269	427,839
Development Projects In Progress	92,439	64,288	-	-	(269)	156,458
	538,258	65,310	-	-	-	603,568
Accumulated amortization						
Other Intangible Assets	(13,017)	(908)	-	-	-	(13,925)
Development Costs	(244,585)	(27,434)	-	-	-	(272,019)
	(257,602)	(28,342)	-	-	-	(285,944)
Net book value	280,656					317,624

	1 January 2019	Additions	Currency translation differences	Disposals	Tranfers	30 June 2019
Cost						
Other Intangible Assets	20,231	499	-	-	-	20,730
Development Costs	345,703	167	-	-	3,718	349,588
Development Projects In Progress	66,683	38,233	-	-	(3,718)	101,198
	432,617	38,899	-	-	-	471,516
Accumulated amortization						
Other Intangible Assets	(15,965)	(712)	-	-	-	(16,677)
Development Costs	(196,788)	(23,705)	-	-	-	(220,493)
	(212,753)	(24,417)	-	-	-	(237,170)
Net book value	219,864					234,346

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED AT 30 JUNE 2019

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NOTE 12 - PROVISIONS, CONTINGENT ASSETS AND LIABILITIES

Short-term provisions

	30 June 2019	31 December 2018
Provision for warranty expenses	68,067	43,778
Employee benefits		
Short-term provisions	14,104	10,443
Others	65,524	50,060
	147,695	104,281

Warranty provision

The Group covers the vehicles it has sold for a period of 2 years.

Accordingly, as of the balance sheet date, a provision is provided for the warranty expenses for the vehicles under warranty.

As of 30 June 2019 and 2018, the tables which represent the position of guarantees, pledges and mortgages are as follows:

	2019	2018
1 January	43,778	53,065
Additions, net	55,771	27,450
Payments	(31,482)	(26,014)
As of 30 June	68,067	54,501

Provisions for employee benefits

	30 June 2019	31 December 2018
Provision for employment termination benefits	43,198	38,235
Provision for unused vacation	14,104	10,443
	57,302	48,678

Employment termination benefits

The amount payable consists of one month's salary limited to a maximum of TRY6,017.60 in full for each year of service as of 30 June 2019 (31 December 2018: TRY5,434.42 in full).

The reserve for employment termination benefits is not legally subject to any funding and there are no funding requirements.

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.

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED AT 30 JUNE 2019

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

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 2019	31 December 2018
Net discount rate (%)	5.65	5.65
Turnover rate to estimate the probability of retirement(%)	96.76	96.76

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. As the maximum liability is revised semi-annually, the maximum amount of TRY 6,379.86 effective from 1 July 2019 has been taken into consideration in calculating the provision for consolidated employment termination benefits. (1 January 2019: TRY6,017.60)

As of 30 June 2019 and 2018, the movements of provision for employment termination benefits are as follows:

	2019	2018
1 January	38,235	31,693
Interest expense	1,730	1,434
Charge for the period	2,263	4,574
Remeasurement differences	4,978	1,228
Payments	(4,008)	(2,617)
As of 30 June	43,198	36,312

Provision for unused vacation

As of 30 June 2019 and 2018, the tables which represent the position of provisions for unused vacations are as follows:

	2019	2018
1 January	10,443	9,286
Additions, net	3,661	2,367
As of 30 June	14,104	11,653

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED AT 30 JUNE 2019

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

Commitments and contingencies

As of 30 June 2019 and 31 December 2018, the tables which represent the position of guarantees, pledges and mortgages are as follows:

	30 June 2019	31 December 2018
a. Total amount of guarantees, pledges and mortgages given the name of legal entity	1,122,625	1,379,859
b. Total amount of guarantees, pledges and mortgages given in favour of the parties which are included in the scope of full consolidation	-	-
c. Total amount of guarantees, pledges and mortgages given to third parties for their liabilities in the purpose of conducting the ordinary operations	-	-
d. Total amount of other guarantees, pledges and mortgages	-	-
Total	1,122,625	1,379,859

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

	30 June 2019		31 December 2018	
	Original currency	TRY equivalent	Original currency	TRY equivalent
USD	157,056	903,875	201,235	1,058,679
EUR	22,246	145,724	46,295	279,068
TRY	73,026	73,026	42,112	42,112
Total		1,122,625		1,379,859

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

	30 June 2019	31 December 2018
Guarantee letters given		
Under secretariat of Ministry of Defense	102,017	251,984
Other	1,020,608	1,127,875
Total	1,122,625	1,379,859

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED AT 30 JUNE 2019

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

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

Guarantee letters

a) Guarantees given as of 30 June 2019 and 2018 are as follows:

	30 June 2019	31 December 2018
Bank Guarantee of Letters	1,122,625	1,379,859
Total	1,122,625	1,379,859

b) Guarantees received as of 30 June 2019 and 31 December 2018 are as follows:

	30 June 2019	31 December 2018
Bank letters of guarantee	249,771	336,045
Guarantee notes	17,595	20,195
Mortgages received	4,020	20
Total	271,386	356,260

Contingent asset

The legal case related to tax deduction for the research and development activities in 2011-2012-2013-2014 and 2015 was concluded in favor of the Group and the same cases is still in progress at appeal phase. The decisions related with the cases at the appeal phase for 2011, 2012 and 2013 were in favor but revision of decision was requested by oversight. The appeal stages for 2014 and 2015 still continues.

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

a) Prepaid expenses:

	30 June 2019	31 December 2018
Prepaid expenses	9,612	7,470
Total	9,612	7,470

b) Other current assets

	30 June 2019	31 December 2018
Value added tax receivables	81,993	57,546
Other	3,457	3,377
Total	85,450	60,923

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED AT 30 JUNE 2019

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

c) Obligations arising from customer contracts

Liabilities arising from customer contracts - short term	30 June 2019	31 December 2018
Advances received	239,038	191,607
Deferred maintenance revenues	21,423	5,184
	260,461	196,791

Liabilities arising from customer contracts - long term	30 June 2019	31 December 2018
Advances received	388,185	469,884
Deferred maintenance revenues	141,214	35,511
	529,399	505,395

d) Employee benefits obligation

	30 June 2019	31 December 2018
Payables to employees	3,371	14,520
Social security payables	8,173	8,014
Taxes and funds payable	2,354	7,810
	13,898	30,344

e) Other current liabilities:

	30 June 2019	31 December 2018
Taxes and funds payable	14,314	13,688
Deferred special consumption tax	1,516	911
Payables to shareholders	115	105
Other	788	705
	16,733	15,409

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED AT 30 JUNE 2019

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

NOT 14 - REVENUE AND COST OF SALES

Net sales

	1 January - 30 June 2019	1 April - 30 June 2019	1 January - 30 June 2018	1 April - 30 June 2018
Domestic sales	249,359	133,433	332,900	146,876
Export sales	1,042,889	735,254	160,808	92,309
Gross sales	1,292,248	868,687	493,708	239,185
Less: sales discounts and returns	(8,352)	(3,861)	(5,549)	(3,411)
Net sales	1,283,896	864,826	488,159	235,774

Sales of the Group for the years ended 30 June 2019 and 2018 in terms of the products are as follows:

	1 January - 30 June 2019	1 April - 30 June 2019	1 January - 30 June 2018	1 April - 30 June 2018
Commercial vehicle	651,992	318,240	332,429	185,183
Armored vehicle	503,086	474,318	39,688	814
Accrued earnings related to construction contracts	-	-	23,896	-
Other sales(*)	128,818	72,268	92,146	49,777
	1,283,896	864,826	488,159	235,774

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

Costs of Sales

	1 January - 30 June 2019	1 April - 30 June 2019	1 January - 30 June 2018	1 April - 30 June 2018
Cost of finished goods sold	(748,410)	(461,455)	(342,152)	(165,403)
Cost of merchandise goods sold	(57,426)	(28,922)	(43,819)	(23,245)
Costs of Sales	(805,836)	(490,377)	(385,971)	(188,648)

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED AT 30 JUNE 2019

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

NOTE 15 - RESEARCH AND DEVELOPMENT EXPENSES, MARKETING AND GENERAL ADMINISTRATIVE EXPENSES

	1 January - 30 June 2019	1 April - 30 June 2019	1 January - 30 June 2018	1 April - 30 June 2018
Sales and marketing expenses	(196,970)	(125,069)	(103,144)	(60,843)
General administrative expenses	(58,122)	(32,900)	(39,364)	(21,220)
Research and development expenses	(28,507)	(14,542)	(24,453)	(12,151)
Total	(283,599)	(172,511)	(166,961)	(94,214)

NOTE 16 - OTHER OPERATING INCOME AND EXPENSES

	1 January - 30 June 2019	1 April - 30 June 2019	1 January - 30 June 2018	1 April - 30 June 2018
Other Operating Income				
Foreign exchange gains on operating activities	106,988	58,529	542,016	409,195
Gain on forward transactions	33,585	17,730	15,839	12,784
Revenue from charge of due date receivables	17,788	8,181	12,365	6,127
Incentives income	738	369	970	485
Other income	11,507	1,691	11,940	7,281
Total	170,606	86,500	583,130	435,872

	1 January - 30 June 2019	1 April - 30 June 2019	1 January - 30 June 2018	1 April - 30 June 2018
Other Operating Expense				
Foreign exchange loss on operating activities	(80,756)	(33,463)	(541,300)	(413,035)
Loss on forward transactions	(14,581)	(8,216)	(11,430)	(2,150)
Provision for doubtful receivables	(3,355)	(1,568)	(4,733)	(2,626)
Other expenses	(110)	(110)	(339)	(129)
Total	(98,802)	(43,357)	(557,802)	(417,940)

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED AT 30 JUNE 2019

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

NOTE 17 – FINANCIAL INCOME

	1 January - 30 June 2019	1 April - 30 June 2019	1 January - 30 June 2018	1 April - 30 June 2018
Interest income from time deposits	9,925	2,320	9,517	2,311
Foreign exchange gains on deposits	6,972	2,079	-	-
Foreign exchange gains on bank borrowings	1,217	585	1,875	184
	18,114	4,984	11,392	2,495

NOTE 18 - FINANCIAL EXPENSES

	1 January - 30 June 2019	1 April - 30 June 2019	1 January - 30 June 2018	1 April - 30 June 2018
Interest expense on bank borrowings	(72,680)	(37,767)	(46,595)	(21,544)
Foreign exchange losses on bank borrowings	(25,901)	(16,068)	(5,938)	(4,419)
Foreign exchange losses on deposits	(9,755)	(3,298)	(5,251)	(2,458)
Other	(909)	(437)	(182)	(32)
Total	(109,245)	(57,570)	(57,966)	(28,453)

NOTE 19 - TAX ASSETS AND LIABILITIES

In Turkey, the corporation tax rate is 22%. Corporate tax returns are required to be filed by the twenty-fifth day of the fourth month following the balance sheet date and taxes must be paid in one installment by the end of the fourth month. The tax legislation provides for a temporary tax of 22% 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 2019 and 31 December 2018, income tax payables are presented net of prepaid taxes in the balance sheet as follows:

	30 June 2019	31 December 2018
Income tax payable	-	632
Prepaid taxes (-)	(517)	(65)
Current period tax liability/asset	(517)	567

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED AT 30 JUNE 2019

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

NOTE 19 - TAX ASSETS AND LIABILITIES (Continued)

The breakdown of total tax expense for the periods ended 30 June 2019 and 31 December 2018 are as follows:

	1 January - 30 June 2019	1 January - 30 June 2018
Current period tax charge	-	-
Deferred tax income/expense reflected in profit or loss		
Charged to profit for the period	6,181	7,414
Charged to other comprehensive income	1,094	270
Total	7,275	7,571

As of 30 June 2019 and 31 December 2018, 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 2019	31 December 2018	30 June 2019	31 December 2018
Incentives from research and development activities (*)	225,461	334,643	49,601	73,621
Tangible assets	(20,132)	(19,389)	(545)	(396)
Intangible assets	(66,655)	(71,733)	(13,331)	(14,347)
Deferred financial expenses	(3,011)	(1,410)	(662)	(310)
Inventories	7,008	6,519	1,542	1,424
Warranty provision	68,067	43,778	14,261	9,403
Provision for employment	43,198	38,235	8,640	7,647
Deferred financial income	(920)	880	(202)	194
Provisions for doubtful receivables	2,217	2,187	488	481
Provisions for unused vacation liabilities	14,104	10,443	3,103	2,298
Other provisions	72,349	42,096	14,470	8,419
Deferred maintenance income	156,258	41,876	26,022	6,511
Other	(21,714)	(24,019)	(6,048)	(4,881)
Deferred tax assets, net			97,339	90,064

- (*) The Company's incentive income from investments with incentive certificate are subject to corporate income tax exemption tax at reduced rates being effective starting from the period that investment is partially or entirely operated and till the period that investment reaches the contribution amount. In this context, as of 30 June 2019, the tax advantage of TRY225,461 (31 December 2018: TRY334,643), which the Company will use in the foreseeable future, has been recognized in the financial statements as deferred tax asset. The deferred tax asset on tax advantage carried from 2015 and before was not been calculated since the case regarding the use of tax benefit of TRY164,801 for aforementioned years is still going on.

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED AT 30 JUNE 2019

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

NOTE 19 - TAX ASSETS AND LIABILITIES (Continued)

The movement of deferred tax asset for the periods ended 30 June 2019 and 2018 are as follows:

	2019	2018
1 January	90,064	46,606
Deferred tax income:		
- Charged to profit for the period	6,181	7,414
- Charged to other comprehensive income	1,094	270
As of 30 June	97,339	54,290

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 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 2019	30 June 2018
Net income attributable to shareholders (TRY)	195,330	(78,719)
Weighted average number of issued shares	24,000,000,000	24,000,000,000
Earnings per share (Piastre)	0.814	(0.328)

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED AT 30 JUNE 2019

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

NOTE 21 - 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 2019 and 31 December 2018:

Due from related parties	30 June 2019	31 December 2018
Al Jasoor Heavy Vehicle Industry LLC (3) (*)	277,695	126,822
Ram Dış Ticaret A.Ş. (1) (**)	214,343	271,758
Other (1)	610	464
	492,648	399,044

(*) This amount consists of the trade receivables due to the sales to Al Jasoor Heavy Vehicles Industry LLC

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

Due to related parties	30 June 2019	31 December 2018
Ram Dış Ticaret A.Ş. (1)	4,911	6,916
Zer Merkezi Hizmetler A.Ş. (1)	4,722	5,836
Koç Sistem Bilgi ve İletişim Hiz. A.Ş. (1)	1,101	931
Setur Servis Turistik A.Ş. (1)	995	1,245
Ram Sigorta Aracılık Hiz. A.Ş. (1)	715	184
Otokoç Otomotiv Tic. ve San. A.Ş. (1)	657	788
Opet Fuchs Madeni Yağ A.Ş.	591	240
Ingage Dijital (1)	403	194
Other (1)	1,084	9,012
Total	15,179	25,346

(1) Related parties of the parent company

(2) Shareholder

(3) Joint venture

Advances received from related parties	30 June 2019	31 December 2018
Al Jasoor Heavy Vehicle Industry LLC (3) (*)	618,432	652,617
	618,432	652,617

(*) These are the advances received due to sales to Al Jasoor Heavy Vehicles Industry LLC, which is a Joint Venture of the Group.

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED AT 30 JUNE 2019

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NOTE 21 - RELATED PARTY DISCLOSURES (Continued)

ii) Significant sales to related parties and significant purchases from related parties :

	1 January - 30 June 2019	1 April - 30 June 2019	1 January - 30 June 2018	1 April - 30 June 2018
Sales of products and services				
Al Jasoer Heavy Vehicle Industry LLC (3)	385,920	385,828	-	-
Ram Dış Ticaret A.Ş. (1)	120,751	96,172	31,648	10,380
Other (1)	74	5	182	177
	506,745	482,005	31,830	10,557

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

	1 January - 30 June 2019	1 April - 30 June 2019	1 January - 30 June 2018	1 April - 30 June 2018
Fixed asset purchases				
Koç Sistem Bilgi ve İletişim Hizm. A.Ş (1)	1,782	302	1,004	607
Other (1)	248	248	35	22
	2,030	550	1,039	629

	1 January - 30 June 2019	1 April - 30 June 2019	1 January - 30 June 2018	1 April - 30 June 2018
Inventory purchases				
Zer Merkezi Hizmetler A.Ş. (1)	19,402	9,358	13,636	7,560
Türk Traktör ve Ziraat Mak. A.Ş. (1)	2,196	1,115	-	-
Ram Dış Ticaret A.Ş. (1)	2,026	1,546	3,303	1,350
Opet Petrolcülük A.Ş. (1)	1,667	897	1,972	1,046
Opet Fuchs Madeni Yağ A.Ş. (1)	1,506	771	1,272	571
Akpa Dayanıklı Tük. Paz. A.Ş. (1)	1,408	666	1,037	563
Other (1)	82	80	75	68
	28,287	14,433	21,295	11,158

(1) Related parties of the parent company

(2) Shareholder

(3) Joint venture

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED AT 30 JUNE 2019

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

NOTE 21 - RELATED PARTY DISCLOSURES (Continued)

	1 January - 30 June 2019	1 April - 30 June 2019	1 January - 30 June 2018	1 April - 30 June 2018
Service purchases				
Ram Dış Ticaret A.Ş. (1)	22,505	11,333	8,998	957
Ram Sigorta Aracılık Hz. A.Ş. (1) (*)	5,436	728	3,937	289
Setur Servis Turistik A.Ş. (1)	5,178	2,858	3,943	2,429
Otokoç Otomotiv Tic. ve San. A.Ş. (1)	3,065	2,063	2,340	1,015
Koç Sistem Bilgi ve İletişim Hizm. A.Ş. (1)	1,791	1,193	5,672	815
Koç Holding A.Ş. (2) (**)	1,789	894	1,660	830
Other (1)	1,368	942	1,924	532
	41,132	20,011	28,474	6,867

(*) It includes paid and accrued premium as of 30 June 2019 in accordance with insurance policies signed between insurance companies via Ram Sigorta Aracılık Hizmetleri A.Ş. which is an insurance agency.

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

Banks deposits	30 June 2019	31 December 2018
Yapı ve Kredi Bankası A.Ş. (1)		
- Time deposits	-	15,631
- Deposit deposits	26	471
	26	16,102
Checks and notes in collection	30 June 2019	31 December 2018
Yapı ve Kredi Bankası A.Ş. (1)	350	2,662
	350	2,662

(1) Related parties of the parent company

(2) Shareholder

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED AT 30 JUNE 2019

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

NOTE 21 - RELATED PARTY DISCLOSURES (Continued)

For the periods ended 30 June 2019 and 2018, financial income and expense with related parties:

	1 January - 30 June 2019	1 April - 30 June 2019	1 January - 30 June 2018	1 April - 30 June 2018
Foreign exchange losses arising from trade receivables and payables				
Ram Dış Ticaret A.Ş. (1)	29,899	25,602	12,367	6,639
Al Jasoor Heavy Vehicle Industry LLC (3)	551	551	-	-
Zer Merkezi Hizmetler A.Ş. (1)	160	118	6	3
	30,610	26,271	12,373	6,642
Foreign exchange losses arising from trade receivables and payables				
Ram Dış Ticaret A.Ş. (1)	6,256	171	437	339
Zer Merkezi Hizmetler A.Ş. (1)	301	90	280	190
Koç Sistem Bilgi ve İletişim Hizm. A.Ş. (1)	5	2	25	25
	6,562	263	742	554

For the periods ended 30 June 2019 and 2018, financial income and expense with related parties:

	1 January - 30 June 2019	1 April - 30 June 2019	1 January - 30 June 2018	1 April - 30 June 2018
Interest income				
Yapı ve Kredi Bankası A.Ş. (1)	131	131	11	4
	131	131	11	4
Interest income				
Yapı ve Kredi Bankası A.Ş. (1)	10,243	6,223	50	27
	10,243	6,223	50	27

(1) Related parties of the parent company

(2) Shareholder

(3) Joint Venture

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED AT 30 JUNE 2019

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NOTE 21 - RELATED PARTY DISCLOSURES (Continued)

For the periods ended 30 June 2019 and 2018, financial income and expense with related parties:

	1 January - 30 June 2019	1 April - 30 June 2019	1 January - 30 June 2018	1 April - 30 June 2018
Currency income				
Yapı ve Kredi Bankası A.Ş. (1)	3,437	948	973	396
	3,437	948	973	396

	1 January - 30 June 2019	1 April - 30 June 2019	1 January - 30 June 2018	1 April - 30 June 2018
Currency expense				
Yapı ve Kredi Bankası A.Ş. (1)	3,192	1,297	2,696	2,013
	3,192	1,297	2,696	2,013

(1) Related parties of the parent company

Benefits provided to senior executives

For the year ended 30 June 2019, the total amount of benefits provided to senior management is TRY4,786 thousand (30 June 2018: TRY4,146 thousand). The senior executives consist of board members, general manager and deputy 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. These risks are monitored and limited by analysing the foreign currency position. Currency risk is monitored and limited by analysing the foreign currency position. The Group follows a policy of diversifying its foreign currency position in order to manage the foreign currency risk that may arise due to future operations and recognized assets and liabilities.

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED AT 30 JUNE 2019

(Amounts expressed in thousand Turkish Lira ("TRY") 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 2019	TRY equivalent (functional currency)	USD	EUR	GBP
1. Trade receivables	1,330,580	73,750	135,270	2,749
2a. Monetary financial assets (including cash, bank accounts)	4,074	1	621	-
2b. Non-monetary financial assets	-	-	-	-
3. Other	63	11	-	-
4. Current assets (1+2+3)	1,334,717	73,762	135,891	2,749
5. Trade receivables	-	-	-	-
6a. Monetary financial assets	-	-	-	-
6b. Non-monetary financial assets	-	-	-	-
7. Other	-	-	-	-
8. Non-current assets (5+6+7)	-	-	-	-
9. Total assets (4+8)	1,334,717	73,762	135,891	2,749
10. Trade payables	(127,240)	(14,352)	(6,458)	(321)
11. Financial liabilities	(211,914)	(13,505)	(20,485)	-
12a. Monetary other liabilities	(8,788)	(1,253)	(203)	(34)
12b. Non monetary other liabilities	-	-	-	-
13. Current liabilities (10+11+12)	(347,942)	(29,110)	(27,146)	(355)
14. Trade payables	-	-	-	-
15. Financial liabilities	(294,782)	-	(45,000)	-
16a. Monetary other liabilities	(473,494)	(82,274)	-	-
16b. Non monetary other liabilities	-	-	-	-
17. Non-current liabilities (14+15+16)	(768,276)	(82,274)	(45,000)	-
18. Total liabilities (13+17)	(1,116,218)	(111,384)	(72,146)	(355)
Net balance sheet position (9+18)	218,499	(37,622)	63,745	2,394
19. Net asset/(liability) position of off-balance sheet derivative instruments (19a-19b)	(222,091)	37,422	(64,000)	(2,500)
19a. Hedged total assets amount	393,776	68,422	-	-
19b. Hedged total liabilities amount	(615,867)	(31,000)	(64,000)	(2,500)
20. Net foreign currency asset/(liability) position (9+18+19)	(3,592)	(200)	(255)	(106)
21. Net foreign currency asset/(liability) position of monetary items (=1+2a+5+6a-10-11-12a-14-15-16a)	218,436	(37,633)	63,745	2,394
22. Total fair value of financial instruments used for foreign currency hedging	(4,452)	(5,954)	2,509	(1,007)
23. Export (As of 30 June 2019)	1,037,520	79,208	34,845	2,388
24. Import (As of 30 June 2019)	361,922	24,840	34,528	401

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED AT 30 JUNE 2019

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

31 December 2018	TRY equivalent (functional currency)	USD	EUR	GBP
1. Trade receivables	805,011	76,525	66,210	497
2a. Monetary financial assets (including cash, bank accounts)	67,110	3,371	8,191	-
2b. Non-monetary financial assets	-	-	-	-
3. Other	58	11	-	-
4. Current assets (1+2+3)	872,179	79,907	74,401	497
5. Trade receivables	7,933	-	1,316	-
6a. Monetary financial assets	-	-	-	-
6b. Non-monetary financial assets	-	-	-	-
7. Other	-	-	-	-
8. Non-current assets (5+6+7)	7,933	-	1,316	-
9. Total assets (4+8)	880,111	79,907	75,717	497
10. Trade payables	(165,872)	(19,894)	(10,117)	(34)
11. Financial liabilities	-	-	-	-
12a. Monetary other liabilities	(8,871)	(929)	(630)	(28)
12b. Non monetary other liabilities	-	-	-	-
13. Current liabilities (10+11+12)	(174,743)	(20,823)	(10,747)	(62)
14. Trade payables	-	-	-	-
15. Financial liabilities	(60,268)	-	(9,998)	-
16a. Monetary other liabilities	(522,327)	(99,285)	-	-
16b. Non monetary other liabilities	-	-	-	-
17. Non-current liabilities (14+15+16)	(582,595)	(99,285)	(9,998)	-
18. Total liabilities (13+17)	(757,338)	(120,108)	(20,745)	(62)
Net balance sheet position (9+18)	122,773	(40,201)	54,972	435
19. Net asset/(liability) position of off-balance sheet derivative instruments (19a-19b)	(106,438)	41,069	(53,500)	-
19a. Hedged total assets amount	342,322	65,069	-	-
19b. Hedged total liabilities amount	(448,760)	(24,000)	(53,500)	-
20. Net foreign currency asset/(liability) position (9+18+19)	16,334	868	1,472	435
21. Net foreign currency asset/(liability) position of monetary items (=1+2a+5+6a-10-11-12a-14-15-16a)	122,714	(40,212)	54,972	435
22. Total fair value of financial instruments used for foreign currency hedging	(299)	(1,722)	1,223	200
23. Export (As of 30 June 2018)	156,289	3,234	28,838	19
24. Import (As of 30 June 2018)	240,287	27,061	25,262	744

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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, Euro and GBP exchange rates, with all other variables held constant, on the Group’s income before tax as of 30 June 2019 and 31 December 2018:

30 June 2019	Profit before tax Appreciation of foreign currency	Profit before tax Depreciation of foreign currency
<i>In case 10% appreciation of USD against TRY :</i>		
1- USD net asset/liability	(115)	115
2- Amount hedged for USD risk (-)	-	-
3- USD net effect (1+2)	(115)	115
<i>In case 10% appreciation of EUR against TRY:</i>		
4- EUR net asset/liability	(167)	167
5- Amount hedged for EUR risk (-)	-	-
6- EUR net effect (4+5)	(167)	167
<i>In case 10% appreciation of GBP against TRY:</i>		
7- GBP net asset/liability	(77)	77
8- Amount hedged for GBP risk (-)	-	-
9- GBP net effect (7+8)	(77)	77
Total(3+6+9)	(359)	359

31 December 2018	Profit before tax Appreciation of foreign currency	Profit before tax Depreciation of foreign currency
<i>In case 10% appreciation of USD against TRY :</i>		
1- USD net asset/liability	457	(457)
2- Amount hedged for USD risk (-)	-	-
3- USD net effect (1+2)	457	(457)
<i>In case 10% appreciation of EUR against TRY:</i>		
4- EUR net asset/liability	887	(887)
5- Amount hedged for EUR risk (-)	-	-
6- EUR net effect (4+5)	887	(887)
<i>In case 10% appreciation of GBP against TRY:</i>		
7- GBP net asset/liability	289	(289)
8- Amount hedged for GBP risk (-)	-	-
9- GBP net effect (7+8)	289	(289)
Total(3+6+9)	1,633	(1,633)

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED AT 30 JUNE 2019

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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 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 2019 and 31 December 2018:

30 June 2019

Assets	Level 1	Level 2	Level 3	Total
Derivative financial instruments	-	4,452	-	4,452
	-	4,452	-	4,452

31 December 2018

Assets	Level 1	Level 2	Level 3	Total
Derivative financial instruments	-	297	-	297
	-	297	-	297

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

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

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

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

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

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD
ENDED AT 30 JUNE 2019**

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

NOTE 24 - SUBSEQUENT EVENTS

None.

**NOTE 25 - 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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