

Board of Directors Report

Board of Directors Report of Otokar Otomotiv ve Savunma Sanayi A.Ş. for the Period 01.01.2014-31.12.2014

Dear Shareholders,

Our Company presents to the Annual General Assembly and the public its non-consolidated financial reports regarding its activities in 2014, prepared in accordance with Turkish Accounting Standards/Turkish Financial Reporting Standards, which were implemented by the Public Oversight Accounting and Auditing Standards Authority (KGK) pursuant to Capital Market Board's (CMB) "Communiqué on the Principles of Financial Reporting in Capital Markets", numbered II-14.1. Appendices and comments related to these standards were also considered in preparing financial tables.

Members of the Board of Directors, their terms of office and authority limits resolved at the Annual General Assembly Meeting on March 28, 2014 are listed below:

Board of Directors	Title	Begins	Ends
Kudret Önen	Chairman	28.03.2014	26.03.2015
Halil İbrahim Ünver	Vice Chairman	28.03.2014	26.03.2015
Osman Turgay Durak	Member	28.03.2014	26.03.2015
Ali Tarık Uzun	Member	28.03.2014	26.03.2015
Ahmet Serdar Görgüç	Member	28.03.2014	26.03.2015
Tuğrul Kudatgobilik	Member	28.03.2014	26.03.2015
İsmet Böcügöz	Independent Member	28.03.2014	26.03.2015
Abdülkadir Öncül	Independent Member	28.03.2014	26.03.2015
Ahmet Nezh Olcay	Independent Member	28.03.2014	26.03.2015

Clauses pertaining to the Board of Directors have been resolved in accordance with articles 11, 12 and 13 of the Articles of Association, and pursuant to the provisions of the Turkish Commercial Code.

Committees formed under the Board of Directors in accordance with the Corporate Governance Communiqué of the Capital Markets Board, and their members are listed below:

Committee	Chairman	Member
Audit Committee	İsmet Böcügöz	Abdülkadir Öncül
Executive Committee	Kudret Önen	Ahmet Serdar Görgüç
Risk Management Committee	Abdülkadir Öncül	Kudret Önen
Corporate Governance Committee	İsmet Böcügöz	Ali Tarık Uzun, Hüseyin Odabaş

Capital and Ownership Structures

As of December 31, 2014, the registered capital ceiling is TL100 million, while the issued capital stands at TL 24 million.

Shareholders who hold more than 10% of the capital, the number of shares they hold and the percentage of these shares in the capital are as follows:

Shareholders	Amount of Shares (TL)	Stake %
Koç Holding A.Ş.	10,722,750	44.68
Ünver Holding A.Ş.	5,954,944	24.81
Other	7,322,306	30.51
Total	24,000,000	100.00

The remaining shares, at a nominal value of TL7,322,306 representing 30.51% of our Company's capital, consist of listed shares and shares held by other shareholders.

Our Company has a wholly-owned affiliate titled “Otokar Europe SAS”, established and registered in France on August 18, 2011 to organize export activities and increase exports with a fully paid in capital of EUR 100,000 (TL239,280).

Amendments to the Articles of Association

No amendments have been made to the articles of Association at the Annual General Assembly on March 28, 2014.

Dividends Distributed in the Last Three Years and Their Percentages

Over the last three years, Otokar has distributed cash dividends at the below percentages of the issued capital.

Period	%
2011	200.00
2012	266.67
2013	416.67

The entire dividend pertaining to the 2013 accounting period was paid to our shareholders in cash, starting from April 4, 2014.

Our shareholders may access the corporate and financial data of our Company at www.otokar.com under the “Investor Relations” section.

Automotive Industry and Otokar

Otokar operates in the commercial vehicles segment of the automotive industry with a product range that consists of minibuses, medium size buses and buses used in mass transportation and personnel transportation, as well as various 4x4 off-road vehicles and tactical wheeled armoured vehicles for defence industry. Additionally, the Company manufactures trailers and semi-trailers under the brand name Otokar-Fruehauf, and light trucks under Atlas brand for the transportation and logistics industry.

The Main Contract for Stage I Turkish Main Battle Tank Design and Prototype Production within the frame of the “Modern Tank Production with National Capabilities Project” (Altay Project) was signed between Otokar and the Undersecretariat for Defence Industries on July 29, 2008.

After completing the project’s concept design and detailed design phases, and moving on to the “Prototype Production and Qualification” phase in 2013, prototype production activities have been carried out in 2014.

Of the two tank prototypes to be delivered to the Undersecretariat for Defence Industries (SSM), the production of PV1 has been completed, and prior to System Qualification and Acceptance Tests, currently the functional tests are being conducted. The production of the second prototype PV2 has also been completed, and the tank will be ready for tests once the fire control system is optimized.

The first version of the ALTAY Tank Serial Production Specifications Document was submitted to SSM in June 2013, and currently discussions with SSM about the details continue.

The Market - Sales – Production

The developments observed in the industry during 2014 can be summarized as follows, based on OSD (Automotive Manufacturers Association) data:

- Transportation vehicles production increased 4% in January-December 2014 compared to the same period of 2013, totaling 1,170,000 units, while automobile production rose 16%, and totalled 733,439 units.

However, transportation vehicles market shrank 10% in 2014 and total 807,486 units were sold.

Production developments in 2014 compared to the same period of the previous year are listed below in vehicle categories:

- Light commercial vehicle segment
 - 6% decrease in minibuses
 - 2% increase in midi-buses
 - 12% decrease in pickups
- Heavy commercial vehicles segment
 - 23% decrease in buses
 - 3% increase in large size trucks
 - 24% decrease in small size trucks

The sales showed 1% decrease in the local production light vehicles while the decline in imported light transportation vehicles was recorded at 9% in the January- December 2014 period.

The market share of imports in this period was 46%.

Production and Sales

Our Company's production and sales figures by product type are presented below, and in comparison to the figures of the previous year:

	2014		2013		Change (Units)		Change %	
	Production	Sales	Production	Sales	Production	Sales	Production	Sales
Small Buses	2,078	1,975	2,699	2,792	(621)	(817)	(23)	(29)
Buses	406	454	1,224	1,251	(818)	(797)	(67)	(64)
4x4 Off-Road Vehicles	70	67	127	127	(57)	(60)	(45)	(47)
Armoured Tactical Vehicles	353	368	428	404	(75)	(36)	(18)	(9)
Trailers	1,423	1,417	769	768	654	649	85	85
Ligth Trucks	359	463	362	212	(3)	251	(1)	118
TOTAL	4,689	4,744	5,609	5,554	(920)	(810)	(16)	(15)

The revenues in 2014 reported in the non-consolidated financial statements prepared in accordance with the applicable regulations show approximately 12% decrease compared to the same period of the previous year.

The distribution of our revenues in terms of domestic and international sales, and in comparison to the previous year, is as follows:

	2014 (TL)	2013 (TL)	Change %
Domestic Sales	994,226,341	1,175,900,196	(15)
International Sales	237,407,431	225,652,738	5
Total	1,231,633,772	1,401,552,934	(12)

Our international sales totalled USD 108,403,361 in 2014 (2013: USD 117,458,384), with a 19% share (2013: 16%) in total turnover.

Our total capacity utilization in 2014 was 43% (2013: 51%).

Otokar owes its growth to its proprietary products with owned design and intellectual rights, and developed using the Company's own engineering, research, and development capabilities. Our company expands its product range every year, introducing new models as a result of the R&D activities. Having identified its strategies as expanding with new products, growing in the Defence Industry and increasing the share of exports in revenues, Otokar continues to work toward these goals.

Investments

Otokar continued its investments in 2014 with the previously started “Otokar R&D Centre” investments, making a crucial decision in the area of research and development with a view to achieving its rapid growth target with vehicles for which the intellectual rights are owned by Otokar.

Total investments amounted to approximately USD 4.7 million at the end of 2014.

Administrative Activities

The names and positions of the senior executives of our Company in 2014 are listed below:

Name - Last Name	Position
Ahmet Serdar Görgüç	General Manager
Hüseyin Odabaş	Assistant General Manager - Finance
Ali Rıza Alptekin	Assistant General Manager - Production and Supply
Murat Ulutaş	Assistant General Manager - Technical
Hasan Basri Akgül	Assistant General Manager - Sales and Marketing
Mustafa Bakırcı	Assistant General Manager - Main Battle Tank and Armoured Tactical Vehicles

As of December 31, 2014 our Company has 2,054 employees in total (2013: 2,264). Of these employees, 618 (2013: 640) are administrative and office personnel, and 1,436 (2013: 1,624) are factory workers. No incidents of disputes or labour movements were observed during the year.

Our Company is subject to the Collective Labour Agreement signed between the Turkish Metal Workers Union and MESS (Turkish Employers' Association of Metal Industries) on December 15, 2014, and which came into force as of September 1, 2014.

Our Company has agreed to comply with the Principles of Corporate Governance issued by the Capital Markets Board, and to undertake the necessary amendments in line with changing conditions. Otokar has been rated by SAHA Kurumsal Yönetim ve Kredi Derecelendirme Hizmetleri A.Ş. in accordance with CMB's (Capital Markets Board) Communiqué on “The Principles Regarding Rating Activity in Capital Markets and Rating Agencies”, and pertaining to rating the compliance of corporations listed on the BIST (previously the ISE - Istanbul Stock Exchange), with the Principles of Corporate Governance. The “Corporate Governance Rating Report” can be found at www.otokar.com.

Our Company's Corporate Governance Rating rose from 86.44 (8.64) in 2013 to 91.99 (9.20) in 2014.

Financial Results

Our Company presents to the public its 2014 non-consolidated financial statements, which have been prepared in accordance with the Turkish Accounting Standards/Turkish Financial Reporting Standards that were implemented by the Public Oversight Accounting and Auditing Standards Authority (POA) pursuant to Capital Market Board's (CMB) “Communiqué on the Principles of Financial Reporting in Capital Markets”, numbered II-14.1. Appendices and comments related to these standards were also considered in preparing financial tables.

The financial tables, notes and ratios showing the results of our activities in 2014 are also presented for your information.

The revenues of our company as of end 2014 totalled TL1,231,633,772 while we posted TL312,105,372 in gross sales profit.

According to the financial statements prepared in accordance with Turkish Financial Reporting Standards, and pursuant to CMB regulations, our Company set aside a depreciation provision of TL46,195,954 and posted a profit of TL81,783,848 before tax, and a net profit of TL72,771,198 after deducting TL9,012,650 in taxes.

In our Annual General Assembly on March 28, 2014, the upper limit for donations to be made by the company in 2014 was set at TL3,000,000. In 2014 our Company provided tax-deductible donations and aid amounting to TL1,859,414 to foundations and associations for charitable purposes.

A balanced and consistent policy is followed in distributing profit among shareholders and the Company's interests in accordance with the Principles of Corporate Governance. In determining profit distribution, our Company takes into account its long-term strategy, capital requirements, investments and financing policies, and profitability and cash position.

In accordance with the Profit Distribution Proposal attached herein we present to your approval that;

- our shareholders, shareholders in unlimited taxpayer status and shareholders in limited taxpayer status, who earn profit share through a business unit or a permanent representative in Turkey be paid TL3.33333 gross=net cash dividend per one share with the nominal value of TL1.00 at the rate of 333.33%;
- other shareholders be paid TL2.83333 net cash dividend per one share with the nominal value of TL1.00 at the rate of 283.33%;
- and that the beginning date of payment of the dividends amounting to TL80,000,000 be Thursday, April 4, 2015.

We have submitted an overview of the operations in 2014 and the generated results for your information.

Dear Shareholders,

We, as the Board of Directors have completed our office term today. The new members of the Board of Directors will be elected in this assembly. We would like to express our gratitude for your confidence, courtesy, and assistance throughout our office term.

İstanbul, March 3, 2015



Kudret Önen
Chairman