

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ A.Ş.

THE REPORT ON ACTIVITIES WITH RELATED PARTIES FOR 2016

General Information

This report has been prepared under Article 10 of the Corporate Governance Communique Serial II.17.1 (Communique) of Capital Markets Board of Turkey (CMB). In accordance with the aforementioned article, in case of foreseeing the ratio of the amount of common and continuous transactions between corporations whose stock are traded in Borsa İstanbul and the subsidiaries of the corporation and its related parties within an accounting period to the amount of cost of sales according to latest annual financial statements disclosed to the public in purchasing transactions or to amount of revenue according to latest financial statements disclosed to the public in sales transactions is over 10% , a report is prepared by the publicly held company's board about conditions of the transactions and comparison with the market conditions and to disclose that report to the public on Public Disclosure Platform is mandatory.

The purpose of this Report is to disclose the conditions of the transactions that are foreseen to be executed by OTOKAR OTOMOTİV VE SAVUNMA SANAYİ A.Ş. (the Company) in 2017 with related persons/parties defined in the Turkish Accounting Standard No. 24 (TAS 24) related to Related Parties Transactions, providing that they are not considered as trade secrets, and to demonstrate that the Company is not foreseen to be incurred any disadvantage as a result of such transactions when comparing with the conditions prevailing in the market, pursuant to the regulations of the Capital Market Board.

The detailed informations about processes that have been carried out with the related parties of Otokar Otomotiv ve Savunma Sanayi A.Ş. within 2016 are disclosed in note 27 of our financial statements which is about the activities in 2016, and in this report, the conditions of the transactions which are foreseen to be exceeded the limit of 10% of total transaction amount in 2017 financial year has been assessed.

Information about Otokar Otomotiv ve Savunma Sanayi A.Ş.

Otokar was established in 1963. Operating in the field of light commercial vehicles of the automotive industry, Otokar's product range is consisted of minibuses, midibuses and buses preferred for especially mass transportation and tourism transportation, moreover for the defence industry purpose Otokar produces various types of 4x4 land vehicles and wheeled armoured tactical vehicles. Additionally for the logistic sector, all type of trailer and semi-trailers are produced under the brand of Otokar-Fruehauf.

The issued capital of the Company is TL 24 million and the information about the shareholder structure is given below,

Shareholder	Share Amount (TL)	Equity Ratio (%)	Voting Right	Voting Right Ratio (%)
Koç Holding A.Ş.	10,722,749.81	44.68	10,722,749,809	44.68
Ünver Holding A.Ş.	5,954,943.83	24.81	5,954,943,830	24.81
Halka Açık Kısım	6,587,124.77	27.45	6,587,124,770	27.45
Diğer	735,181.59	3.06	735,181,591	3.06
Total	24,000,000.00	100,00%	24,000,000,000	100,00%

The summary financial information about 2016 financial year is given below,

	31.12.2014	31.12.2015	31.12.2016
Total Assets	1.235.552.386	1.605.062.174	1.784.267.642
Total Equity	244.327.376	245.239.099	242.958.092

	01.01.2014-31.12.2014	01.01.2015-31.12.2015	01.01.2016-31.12.2016
Net Sales	1.231.633.772	1.433.967.887	1.634.514.698
Cost of Sales	(919.528.400)	(1.063.026.461)	(1.224.669.421)
Net Profit	72.771.198	79.506.151	69.725.866

Information about the Related Companies being the subject of this Report

Ram Dış Ticaret A.Ş. is registered to İstanbul Chamber of Commerce (İTO) with the registration number of 109050 and is engaged in the wholesale trade activities at the address Ruzgarlıbahçe Mahallesi, Cumhuriyet Caddesi, Energy Plaza, Kat:2 Beykoz, İstanbul, Turkey.

Ram Dış Ticaret A.Ş. was established on 16th November 1970 and currently its issued capital is TL 6 million. Field of activities of Ram Dış Ticaret A.Ş. are; all kinds of wholesale product trading, importing, exporting, making studies on domestic and international marketing and giving consultancy services to third parties. Besides, it provides consultancy in the field of aviation to the world's leading companies located in the Turkic Republics, and creates additional value to group companies and also their sub-industry companies by acting as purchasing center in domestic iron and steel sector. Through its offices located in North Africa, the Turkic Republics and Iraq, it follows closely the markets on the basis of region and country and assess the business opportunities. Thus, different projects have been carried out in recent years, in different sectors, such as energy, automotive, paper, defence.

Information about the conditions of transactions executed with related persons/parties and consistency of such conditions with the prevailing market conditions

Sales of the Company that were above the 10% sales limit between 01.01.2016-31.12.2016 were made to Ram Dış Ticaret A.Ş. and explanations about these transactions are given in the article 27 of Independent Auditor Report dated 31 December 2016.

Sales made to Ram Dış Ticaret A.Ş. is basically consisted of the export registered sales made to non-related third parties. The amount of the issued invoices (for Ram Dış Ticaret A.Ş. and for the third party importer) both remain the same, Ram Dış Ticaret A.Ş. only issues commission invoice for the activities it carries out.

All negotiations with third parties, any contract, default risks and any potential risk associated with inventory are carried out, managed and followed by Otokar. Therefore, all risk are borne by Otokar and Ram Dış Ticaret A.Ş. only assists and manages operative and paper works and in return of these services it issues commission invoice.

As can be seen aforesaid description, when evaluating the essence of the process, rather than the volume of the export registered sales, the amount of commissions paid for the related transaction should be taken into account when determining the 10% limit considering the commercial relations between Ram Dış Ticaret A.Ş. and Otokar. However, as issued invoices covers the entire amount of related transaction, the all sales are seen as related party transactions and therefore exceed 10% limit.

Within 2016, amount of TL 169.278.344 sales transaction has been realized between the Company and related Ram Dış Ticaret A.Ş. and the whole said transactions are consisted of the export registered sales made to non-related third parties with exactly the same conditions. The total amount of acquired services from Ram Dış Ticaret A.Ş. was TL 27.265.973 and TL 1.770.507 of it occurs from the commission invoices due to the export registered sales as described above and the balance amount occurs from sales commission invoices resulting from the sales contract. The accrued commission amount occurred from

export registered sales which is real provision amount of related party transaction is much lower than the limit stated in the Communique and it is decided in accordance with the market conditions.

Conclusion

Pursuant to Capital Market Board's Communique, article 10 of Serial: II, No:17.1; due to the fact that the amount of the Company's common and ongoing product transactions with Ram Dış Ticaret A.Ş. within 2017 accounting period is foreseen to be exceed 10% of the amount of revenue based on 2016 financial reports which was the latest and disclosed to the public, and the conditions of the transactions executing with Ram Dış Ticaret A.Ş. are foreseen to be continued with the same conditions within 2017 , pricing policy and reasons for choosing this policy are explained in this report and information regarding the compliance of the transaction with market conditions is provided.

NOTE: This report has been translated into English for informational purposes. In case of a discrepancy between the Turkish and the English versions of this disclosure statement, the Turkish version shall prevail.