



Otokar

OTOKAR 2019 ANNUAL REPORT

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Otokar

WE EMBARKED ON A JOURNEY WITH THE IDEA OF
INTRODUCING A FIRST IN OUR COUNTRY.
WE WORKED HARD AND WENT FAR WITH FIRM STEPS.
INNOVATIONS AND NEW FIRSTS FOLLOWED.
ON EVERY PATH WE SET OFF, SAYING, "WE CAN!", WE PROVED OURSELVES.

WE TRANSCENDED BORDERS WITH OUR NAME AND
OPENED UP TO THE WORLD.
WE STARTED TO TRAVEL THE ROADS IN
MORE THAN 60 COUNTRIES ON FIVE CONTINENTS.
WE CONTINUED TO PURSUE OUR GOALS WITH DETERMINATION.
EMPOWERED BY OUR PROUD ACHIEVEMENTS,
WE NEVER LOST SIGHT OF OUR GOALS.

WE ARE ON A JOURNEY TOWARD THE FUTURE SINCE THE VERY FIRST DAY,
ALWAYS AIMING TO STAY AHEAD OF THE CURVE,
AND TAKING EACH STEP WITH EYES
FIRMLY FIXED ON OUR GOALS.

WE ARE READY FOR THE FUTURE!

CHAIRMAN'S MESSAGE

OTOKAR CONTINUED TO REMAIN FOCUSED ON THE LONG-TERM GOALS AND ACHIEVED A RECORD GROWTH OF 45 PERCENT IN 2019 WITH TL 2.4 BILLION IN SALES.



Esteemed Shareholders, Partners and Employees,

I am proud to report that 2019 was a year of strong performance for Otokar as we delivered record results with 45 percent growth and TL 2.4 billion in revenues. The biggest contribution to this level of growth came from exports, which increased 78 percent. With \$340 million, exports accounted for 80 percent of our total sales. And we posted TL 352 million profit, with 114 percent year-on-year increase.

In 2019, we maintained a balance between commercial vehicle and defense industry sales, with both groups contributing to total revenues in similar ratios. In Turkish defense industry's export items, land systems came to the forefront among others with 73 percent growth. We also doubled our land systems exports in the same time period by focusing on the deliveries of the previously received orders.

Our bus exports also grew last year, recording 29 percent increase in units. Otokar continued to expand its bus park in several countries and in our target market Europe with France, Malta, Romania, Italy and Serbia standing out particularly. Despite lower levels of demand seen in the

domestic market, we continued to be the most preferred bus brand in our specific segments, with one out of every three buses sold in Turkey bearing the Otokar brand. Even though the domestic light truck market tightened, we still increased the sales of Otokar's Atlas truck 36 percent.

As we continued to implement our global expansion strategy, we also worked to integrate the latest technologies and applications into our products, and spent TL 136 million in R&D activities in 2019. With alternative fueled vehicles an important item on our agenda, we added the 12-meter electric bus to our public transportation range and also developed Turkey's first electric armored vehicle.

Esteemed Partners,

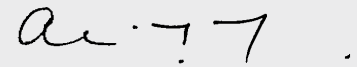
Our subsidiaries and affiliates abroad also had a positive impact on our growth in 2019. We established our fourth company abroad in Kazakhstan last year. Our military and commercial products are actively used in Kazakhstan and Central Asia. In this region, we intend to seize various cooperation opportunities such as joint product development, local partnerships and production, and technology transfer.

In commercial vehicles, our 2020 target is to increase bus sales globally and especially in the European market. We aim to leverage our bus manufacturing strength and expand to global scale through various partnerships. The alternative fueled vehicles added to our product lineup last year will certainly enrich Otokar's experience in this field.

In all of our activities, we remain firmly committed to being an ecofriendly company with strong business ethics within the framework of United Nations Sustainable Development Goals and always focus on ensuring operational excellence.

I would like to thank our esteemed shareholders and clients for their continued trust in our company. Thanks are also due to our partners and employees for their valuable contributions to Otokar's successful endeavors.

Respectfully,



Ali Y. Koç
Chairman

ABOUT

TURKEY'S LEADING
COMMERCIAL VEHICLE
AND DEFENSE INDUSTRY
MANUFACTURER
OTOKAR USES ITS OWN
TECHNOLOGY, DESIGN
AND APPLICATIONS
TO PROVIDE SPECIAL
SOLUTIONS TAILORED
TO THE NEEDS OF ITS
CUSTOMERS.



Otokar was established in 1963, at a time when industrialization and modernization initiatives were being launched in Turkey, to produce the first intercity buses of the country. The company, which started its operations with bus and minibus production, joined the Koç Group in 1976 when it decided to specialize in other business areas in addition to public transportation vehicles. As the production of buses and minibuses continued, Otokar also began manufacturing vehicles for defense industry in 1987, and produced Turkey's first tactical wheeled armored vehicle in the 1990s.

Today, as Turkey's leading manufacturer of commercial vehicles and defense industry products, Otokar produces buses and light trucks in the commercial vehicles segment, and a variety of tactical wheeled and tracked

armored vehicles and turret systems for the defense industry. As the leader and largest private capital company in the defense industry, Otokar maintains its strong position in the sector. Otokar, a Koç Group company, operates at the Arifiye (Sakarya) plant, offering solutions tailored to customer needs with its technologies, designs and applications.

In the commercial vehicles segment, Otokar maintains its title as the bestselling bus brand in Turkey with a broad product offering that includes buses ranging from 7 meters to 18.75 meters for passenger transportation. The company currently continues to work on alternative-fueled buses and has already introduced Turkey's first hybrid bus and first electric bus to the market. Otokar also produces Otokar Atlas, a light truck with 8.5-ton gross vehicle weight under license.

5 IN **CONTINENTS**
60+ COUNTRIES



Otokar comes to the forefront in land vehicles for the defense industry with its expertise in the design, development and system integration of all kinds of vehicles and platforms. The company manufactures tactical wheeled and tracked armored vehicles and turret systems with owned intellectual property rights, and exports defense industry products to more than 35 countries. Otokar also stands apart with world-class knowhow in the defense industry as well as engineering, R&D and technology transfer capabilities.

Otokar's broad product lines are highly sought after both in Turkey and export markets. Otokar products are currently sold and used in five continents in over 60 countries including Turkey.

With numerous firsts to its name since its inception, Otokar carries out R&D activities in world standards. The company has allocated 8 percent of its revenues for R&D expenditures in the last decade.

Vision

OTOKAR'S VISION IS TO PRESERVE THE LOCAL AND NATIONAL IDENTITY OF ITS PRODUCTS BY DEVELOPING TECHNOLOGIES IN-HOUSE, AND TO ENSURE THE CONTINUED SATISFACTION OF ITS CLIENTS, EMPLOYEES, AND SHAREHOLDERS WITH TOTAL EXCELLENCE PHILOSOPHY.

Mission

OTOKAR'S PRIMARY MISSION IS TO DESIGN, MANUFACTURE AND MARKET COMMERCIAL VEHICLES AND VARIOUS DEFENSE INDUSTRY PRODUCTS WITH GLOBAL COMPETITIVE STRENGTH, ALL DEVELOPED TO MEET CUSTOMER EXPECTATIONS.

OTOKAR IN NUMBERS

FOUNDED IN **1963** **100%** LOCAL CAPITAL



KOÇ HOLDİNG A.Ş.



ÜNVER HOLDİNG A.Ş.



OTHER

GLOBAL COMPANY

PRODUCTS WITH OTOKAR-OWNED INTELLECTUAL PROPERTY RIGHTS, USED IN OVER 60 COUNTRIES ACROSS 5 CONTINENTS

PIONEER

PIONEERING SUPPLIER OF LAND DEFENSE SYSTEMS FOR TURKISH ARMED FORCES

MARKET LEADER

MOST PREFERRED BUS BRAND IN ALL OF ITS RESPECTIVE BUS SEGMENTS IN TURKEY



1,957
EMPLOYEES

552,000 M²
PRODUCTION AREA

~300 SALES AND
AFTERSALES NETWORK

COMPETITIVE ADVANTAGES

PRODUCTS WITH OTOKAR OWNED INTELLECTUAL PROPERTY RIGHTS

INDEPENDENCE TO DEVELOP PRODUCTS TO MEET MARKET REQUIREMENTS, POTENTIAL TO EXPORT TECHNOLOGY-TRANSFER TO OVERSEAS

PUBLICLY TRADED

TRANSPARENT STRUCTURE, RELIABILITY

R&D CAPABILITIES AND FLEXIBLE PRODUCTION ABILITY

RAPID PRODUCT DEVELOPMENT AND SPEED TO MARKET

OPERATING IN NICHE MARKETS

SUSTAINABLE GROWTH

CAPABILITY TO OFFER CUSTOMIZED FEATURES

CUSTOMER SATISFACTION GUARANTEE

USD 340 MILLION

2019 EXPORT REVENUES

TL 2.4 BILLION

2019 TURN OVER

TL 1.1 BILLION

10-YEAR R&D EXPENDITURE

PRODUCTION CAPACITY

5,000

BUSES
MINIBUSES

1,600

TRUCKS
LIGHT TRUCKS

3,700

TACTICAL VEHICLES

900

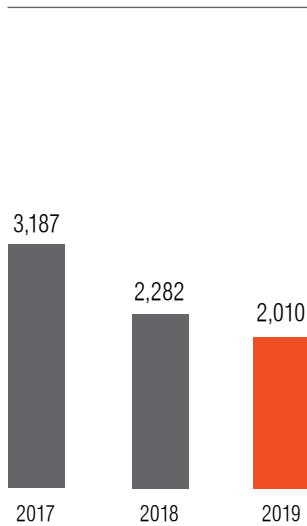
TACTICAL ARMORED
VEHICLES

IN 2019, 1 OUT OF EVERY 3 BUSES SOLD IN TURKEY WAS OTOKAR *

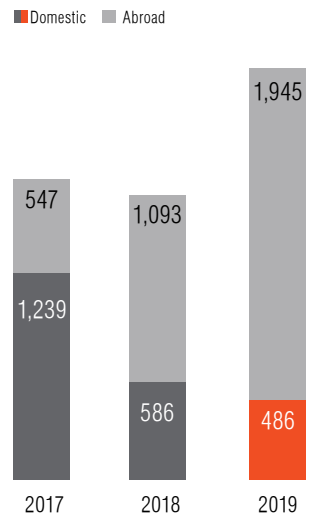
*IN THE SUM OF THE SEGMENTS OTOKAR OPERATES IN

SUMMARY FINANCIAL INFORMATION

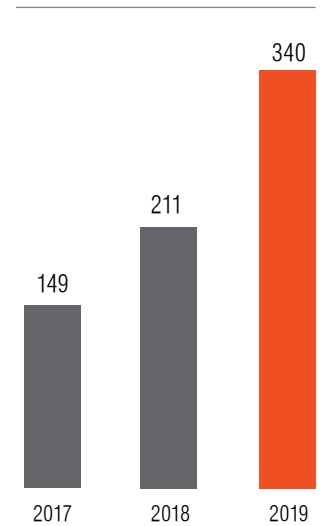
SALES QUANTITIES unit



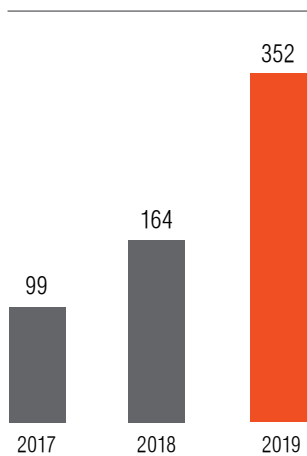
SALES REVENUES TL million



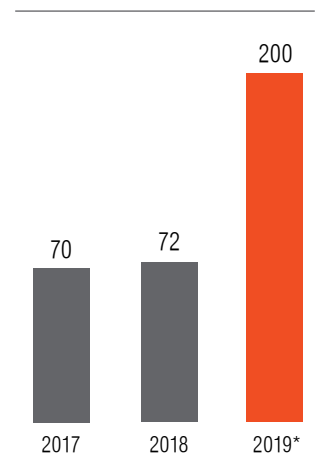
EXPORT REVENUES USD million



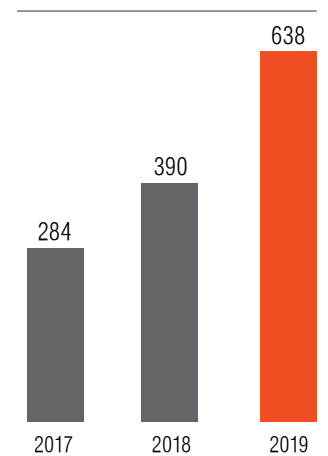
NET PROFIT TL million



DIVIDENDS PAID TL million



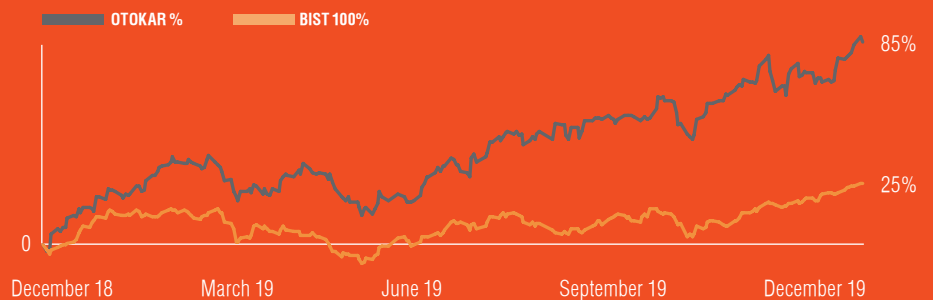
SHAREHOLDERS' EQUITY TL million



* Dividend proposal will be presented to the General Assembly for approval in March 2020.

STOCK PERFORMANCE

Otokar Otomotiv ve Savunma Sanayi A.Ş. shares have been traded on Borsa Istanbul since 24 April 1995 with ticker symbol "OTKAR" while the company stocks are also included in the BIST 100, Corporate Governance and Sustainability Indexes. In 2019, BIST 100 rose 25%, while Otokar shares were traded at lowest TL 83.21 and highest TL 161.10, seeing 85% increase throughout the year.



MAIN RATIOS (%)

	2019	2018
Gross Profit Margin	37.8	35.3
Operating Margin	19.1	13.8
EBITDA Margin	17.8	13.5
Pre-tax Profit Margin	14.2	7.2
Net Profit Margin	14.5	9.8

FINANCIAL RATIOS

Liquidity Ratios	2019	2018
Current Ratio (Current Assets/Short Term Liabilities)	1.87	2.08
Liquidity Ratio (Current Assets-Inventories/Short Term Liabilities)	1.13	1.28
Financial Leverage Ratios	2019	2018
Total Debt to Total Assets Ratio (Short Term Debt + Long Term Debt/Total Assets)	0.76	0.83
Equity/Total Debt Equity/(Short Term Debt + Long Term Debt)	0.31	0.20
Profitability Ratios	2019	2018
Sales Profitability Ratio (Pre-Tax Profit/Net Sales)	0.14	0.07
Return on Assets (Pre-Tax Profit/Total Assets)	0.13	0.05
Return on Equity (Net Profit/Shareholders' Equity)	0.55	0.42

R&D INDICATORS

8%

Share of 10-year R&D
expenditures in turnover

296

Patents and industrial
designs owned

99%

Share of Otokar-
designed vehicle sales
in turnover

PRODUCTIVITY INDICATORS

1,250

Productivity improvement proposals
Kaizen activities

14%

Capacity
utilization rate

17%

10-year average
growth

TL 114 MILLION

Economic
contribution

CORPORATE GOVERNANCE RATING SCORE 9.40

AREAS OF OPERATION

COMMERCIAL VEHICLE



DESCRIPTION

- Otokar boasts a widest product range with an offering that includes buses from 7 to 18.75 meters with varying passenger capacities suitable for urban, inter urban and tourism transportation.
- Exporting buses to 50 countries, particularly in Europe.
- Working on alternative fueled vehicles.
- Manufacturing light trucks with 8.5-ton gross vehicle weight under license since 2013.

DEFENSE INDUSTRY



- Turkey's leading supplier of land defense systems.
- More than 30,000 vehicles are actively used by armed forces and security forces both in Turkey and also in over 35 allied and friendly countries.
- Products are manufactured on order basis depending on the intended purpose, capacity and protection levels.
- All Otokar defense industry products are exported, subject to the requirements of related governments' export license regulations.

PRODUCTS**BUS**

Poyraz

Sultan / Navigo (Sultan S, Sultan Comfort, Sultan Maxi, Sultan Mega, Sultan LF, Sultan Maxi, Navigo C, Navigo U, Navigo T, Agilo C)

Doruk / Vectio (Doruk LE, Doruk DG, Doruk Electra, Doruk Hibra, Vectio C, Vectio U) Ulyso T

Kent (Kent LF, Kent CNG, Kent U, Kent C, Kent Electra / e-Kent C)

Kent Articulated (Kent Articulated, Kent Articulated CNG)

Territo

LIGHT TRUCK

Otokar Atlas

MARKET POSITION AND HIGHLIGHTS OF 2019

- Maintained market leadership across its respective bus segments in Turkey.
- 12-meter electric bus e-Kent C unveiled in Sweden.
- Territo school bus, developed specifically for export markets, introduced to the European market.
- Low-floor variant of Territo U added to the product range.
- Sultan Comfort developed to appeal to three different segments: tourism, student and personnel transportation in Turkish market.
- Fourth order received from Malta, and 40 right-hand drive Kent buses delivered.
- The number of Otokar buses serving the districts of İzmir Metropolitan Municipality reached to 350 with the Kent order received from ESHOT.
- Bus exports to European market continued.
- Deliveries to Bucharest Municipality completed as part of the largest bus export deal that a Turkish bus brand signed for one item.
- Otokar Atlas deliveries in the domestic market continued.

TACTICAL WHEELED VEHICLES

4x4 Tactical Wheeled Armored Vehicles (Ural, Akrep II, Akrep IIe, Cobra, Cobra II, Kaya, Kaya II, Kale, Armored Internal Security Vehicle)

6x6 Tactical Wheeled Armored Vehicle (Arma 6x6)

8x8 Tactical Wheeled Armored Vehicle (Arma 8x8)

TRACKED ARMORED VEHICLES

Light Tracked Armored Vehicle (Tulpar, Tulpar S)

TURRET SYSTEMS

Mızrak UKSS, Keskin UKSS, Open Turrets, Internal Security Turret, Üçok, Bozok, Başok

- Akrep II armored vehicle line added to the 4x4 product range.
- Turkey's first electric armored vehicle Akrep IIe developed.
- Tulpar medium battle tank unveiled at the international defense industry exhibition IDEF.
- Cobra II Ambulance and Ural special operation vehicle added to the product range.
- Deliveries of 8x8 armored vehicles continued as part of Turkey's largest land vehicles export deal for one item.

MILESTONES

OTOKAR CONTINUES ITS JOURNEY TO THE FUTURE WITH THE SAME DETERMINATION TO SUCCESSFULLY UNDERTAKE ITS MISSION SINCE THE VERY FIRST DAY.

1960s

1963

Established in Bahçelievler, Istanbul under the name Otobüs Karoseri Sanayi A.Ş.

1964

Produced Turkey's first intercity buses under Magirus license.

1967

Produced and exported first small buses.

1968

Produced the legendary "Havalı Apollo" buses of the period.

1970s

1970

Produced first minibuses designed for public transportation.

1976

Joined the Koç Group.

1980s

1980

Designed and produced Turkey's first armored cash-intransit vehicle.

1984

Company title amended as "Otokar Otobüs Karoseri Sanayii A.Ş."

1987

Production of tactical wheeled vehicles under Land Rover Defender license commenced; first major order received.

1990s

1990

Produced Turkey's first tactical wheeled armored vehicle, exported Turkey's first tactical armored vehicle.

1995

Otokar IPO.

1997

Relocation to the 86,000-square meter plant in Sakarya.

1999

Otokar Pazarlama A.Ş. acquired.

2000s

2002

Istanbul Fruehauf A.Ş. acquired.

Designed and produced the small bus Navigo/ Sultan, ranking second in Turkish market share in the first year.

2003

Produced Turkey's first ADR-certified tanker.

2004

R&D activities consolidated at the Otokar R&D Center.

2005

Armored internal security vehicle added to product range.

Designed and produced Otokar branded semitrailer.

2007

Vectio/ Doruk, which became the bestselling medium-size bus for the next seven years, included in production plans. Turkey's first hybrid bus produced.

2008

Named prime contractor for the modern main battle

tank production project with local means to meet the updated requirements of the Turkish Armed Forces.

Total production area expanded to 552,000 m² with the acquisition of Otoyol Sanayi A.Ş.

2009

Mine-resistant armored vehicle Kaya and 12-meter city bus Kent added to product range.

Vectio won the "Design Turkey Award", and "Busworld Kortrijk Grand Award" in Europe.

2010s

2010

Company title amended as "Otokar Otomotiv ve Savunma Sanayi A.Ş."

Arma 6x6, a multiwheeled armored vehicle, added to the product range, and received two export orders in the first year.

2011

City bus Kent won "Jury's Special Award" at the European Coach Week.

Armored combat vehicle Arma 8x8 added to product range.

Full-scale model of the national tank Altay unveiled for the first time.

Otokar subsidiary, Otokar Europe founded in France.

2012

Otokar Tank Test Center opened.

Turkey's first electric bus introduced.

First prototypes of the national tank Altay presented.

Received a 900-bus order from IETT (Istanbul Electricity, Tram and Tunnel Administration).

2013

Light commercial truck production commenced.

Turkey's first authentic tracked armored vehicle Tulpar and armored personnel carrier Ural added to product range.

2014

Received ISO 10002 certification for customer satisfaction.

R&D Center named the "Most Successful R&D Center" in automotive industry.

Otokar Electromagnetic Compatibility Test Center accredited.

2015

Testing of the final two prototypes of main battle tank Altay commenced at Turkish Armed Forces and the Presidency of Defense Industries.

Kent Articulated Bus, Tulpar S Tracked Armored Combat Vehicle and Arma 8x8 CBRN Reconnaissance Vehicle added to product range.

Won "Grand Award" in Defense Industry 2015 by the Presidency of Defense Industries.

Awarded OHSAS 18001 certification for occupational health and safety.

Included in the BIST Sustainability Index.

2016

Cobra II armored vehicles entered the Turkish Armed Forces' inventory and Otokar signed the first export agreement for Cobra II.

Otokar developed the Smart Bus application as part of the CoMoSeF Project.

Otokar Land Systems Limited established.

Otokar submitted proposal for the serial production of 250 units of the main battle tank Altay to the Presidency of Defense Industries.

Delivery of 100 articulated buses to ESHOT of Izmir Metropolitan Municipality.

Otokar R&D Test Center Climatic Chamber named the first and only approved test station in Turkey for ATP type approval tests of vehicle superstructures.

2017

Sultan series vehicles updated, Sultan LF added to the city bus range.

Doruk T received a faced lift and was introduced to the European market as Ulyso T.

Qualification and acceptance tests of main battle tank

Altay's prototypes were successfully completed and approved.

Tulpar-S personnel carrier variant added to product range.

Al Jasoor, the joint venture company was awarded the contract to provide 8x8 armored vehicles, becoming Turkey's largest land systems export deal undertaken for a single item.

Activities launched to shift in focus toward Industry 4.0, the fourth industrial revolution.

2018

Agreement for 400 buses signed with the Bucharest Municipality, marking the largest export deal for a single item by a Turkish bus brand.

Otokar Europe Filiala Bucuresti S.R.L. established in Romania.

Tulpar medium battle tank added to Otokar's military vehicle lineup.

Otokar mobile app launched.

Otokar Spectra product range introduced to the market.

HIGHLIGHTS OF 2019





A FIRST IN TURKEY

Akrep Ile: Turkey's first electric armored vehicle

GLOBAL EXPANSION

Registration certificate of Otokar Central Asia presented to Chairman Ali Y. Koç by the Kazakhstan Prime Minister



EXCELLENCE IN EXPORTS AND TECHNOLOGY

Gold Medal and Technological Excellence Award at the Exports Excellence Awards by the Automotive Manufacturers Association

ISO 500

Climbed 38 places up to rank 49th in Istanbul Chamber of Industry (İSO) Turkey's Top 500 Industrial Enterprises list

MARKET LEADER

Otokar market leader across its respective bus segments in Turkey

BIST SUSTAINABILITY INDEX

Fifth consecutive year on the BIST Sustainability Index

DIGITAL TRANSFORMATION AWARDS

Big Data and Analytics Award at the AI & Analytic Awards and Mobility in Manufacturing Award at the Smart Manufacturing Summit, both by International Data Corporation (IDC)

MAJOR ORDERS

Serial production and delivery of export order of 8x8 armored vehicles

ALTERNATIVE FUELLED BUSES

e-Kent C, the 12-meter all-electric bus unveiled at the global public transport summit in Sweden

DELIVERIES

Delivery of 400 Kent buses to the Bucharest Municipality completed

SUPPORTING ART

Transportation sponsor of Arter Contemporary Art Museum

WORKSHOPS FOR CHILDREN

Coding, Robotics and 3D Design Workshop for children of Otokar employees

EFFICIENCY

Implementation of Kaizen practices, training programs, on-the-job training and rewarding systems to further enhance production efficiency



WE WORKED HARD AND
WENT FAR WITH SWIFT STEPS.





GENERAL ASSEMBLY

MEETING AGENDA

THE AGENDA OF THE ORDINARY ANNUAL GENERAL MEETING OF OTOKAR OTOMOTİV VE SAVUNMA SANAYİ A.Ş. DATED 16.03.2020

- 1- Opening and Election of the Chairman of General Assembly,
- 2- Reading, discussion and approval of the Annual Report of year 2019 prepared by the Board of Directors,
- 3- Reading of the summary report of the Independent Audit Firm of 2019 fiscal period,
- 4- Reading, discussion and approval of the Financial Statements of 2019 fiscal period,
- 5- Release of the members of the Board of Directors separately for year 2019 activities,
- 6- Approval, or approval with amendments or refusal of the Board of Directors' proposal for profit distribution for the year 2019 and the distribution date which prepared in accordance with the company's Profit Distribution Policy,
- 7- Determination of the number and the term of duty of the members of the Board of Directors and election of the members base on the determined number, election of the Independent Board Members,
- 8- As per the Corporate Governance Principles, informing the shareholders regarding the "Remuneration Policy" for members of the Board of Directors and the senior executives and payments made under this policy and approval of the "Remuneration Policy" and related payments,
- 9- Determination of the annual gross fees to be paid to the members of the Board of Directors,
- 10- Approval of the Independent Audit Firm selected by the Board of Directors as per the regulations of the Turkish Commercial Code and Capital Markets Board,
- 11- Giving information to the shareholders regarding the donations made by the company in 2019 and determination of a upper limit for donations to be made in 2020,
- 12- Under Articles 395 and 396 of the Turkish Commercial Code, authorizing: shareholders with management control, members of the Board of Directors, senior executives and their spouses and relatives related by blood or affinity up to the second degree; and also informing the shareholders regarding the transactions made in this extent in 2019 pursuant to the Capital Markets Board's Communiqué on Corporate Governance,
- 13- Wishes and Opinions.

GENERAL ASSEMBLY

INDEPENDENT AUDITOR'S REPORT

ON THE BOARD OF DIRECTORS' ANNUAL REPORT



To the General Assembly of Otokar Otomotiv ve Savunma Sanayi Anonim Şirketi

1. Opinion

We have audited the annual report of Otokar Otomotiv ve Savunma Sanayi Anonim Şirketi (the "Company") and its subsidiaries (collectively referred to as the "Group") for the 1 January - 31 December 2019 period.

In our opinion, the financial information and the analysis made by the Board of Directors by using the information included in the audited financial statements regarding the Group's position in the Board of Directors' Annual Report are consistent and presented fairly, in all material respects, with the audited full set consolidated financial statements and with the information obtained in the course of independent audit.

2. Basis for Opinion

Our independent audit was conducted in accordance with the Independent Standards on Auditing that are part of the Turkish Standards on Auditing (the "TSA") issued by the Public Oversight Accounting and Auditing Standards Authority ("POA"). Our responsibilities under those standards are further described in the Auditor's Responsibilities in the Audit of the Board of Directors' Annual Report section of our report. We hereby declare that we are independent of the Group in accordance with the Ethical Rules for Independent Auditors (the "Ethical Rules") and the ethical requirements regarding independent audit in regulations issued by POA that are relevant to our audit of the financial statements. We have also fulfilled our other ethical responsibilities in accordance with the Ethical Rules and regulations. We believe that the audit evidence we have obtained during the independent audit provides a sufficient and appropriate basis for our opinion.

3. Our Audit Opinion on the Full Set Consolidated Financial Statements

We expressed an unqualified opinion in the auditor's report dated 5 February 2020 on the full set consolidated financial statements for the 1 January - 31 December 2019 period.

4. Board of Director's Responsibility for the Annual Report

Group management's responsibilities related to the annual report according to Articles 514 and 516 of Turkish Commercial Code ("TCC") No. 6102 and Capital Markets Board's ("CMB") Communiqué Serial II, No:14.1, "Principles of Financial Reporting in Capital Markets" (the "Communiqué") are as follows:

- To prepare the annual report within the first three months following the balance sheet date and present it to the general assembly;
- To prepare the annual report to reflect the Group's operations in that year and the financial position in a true, complete, straightforward, fair and proper manner in all respects. In this report financial position is assessed in accordance with the financial statements. Also in the report, developments and possible risks which the Group may encounter are clearly indicated. The assessments of the Board of Directors in regards to these matters are also included in the report.
- To include the matters below in the annual report:
 - Events of particular importance that occurred in the Company after the operating year,
 - The Group's research and development activities,
 - Financial benefits such as salaries, bonuses, premiums and allowances, travel, accommodation and representation expenses, benefits in cash and in kind, insurance and similar guarantees paid to members of the Board of Directors and senior management.

When preparing the annual report, the Board of Directors considers secondary legislation arrangements enacted by the Ministry of Trade and other relevant institutions.

5. Independent Auditor's Responsibility in the Audit of the Annual Report

Our aim is to express an opinion and issue a report comprising our opinion within the framework of TCC and Communiqué provisions regarding whether or not the financial information and the analysis made by the Board of Directors by using the information included in the audited financial statements in the annual report are consistent and presented fairly with the audited consolidated financial statements of the Group and with the information we obtained in the course of independent audit.

Our audit was conducted in accordance with the TSAs. These standards require that ethical requirements are complied with and that the independent audit is planned and performed in a way to obtain reasonable assurance of whether or not the financial information and the analysis made by the Board of Directors by using the information included in the audited financial statements in the annual report are consistent and presented fairly with the audited consolidated financial statements and with the information obtained in the course of audit.

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

Beste Ortaç, SMMM
Partner

Istanbul, 20 February 2020

GENERAL ASSEMBLY

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ A.Ş.

BOARD OF DIRECTORS' REPORT 1 JANUARY - 31 DECEMBER 2019

The consolidated financial statements of our company reflecting the 2019 activities and their results, prepared in accordance with the Turkish Accounting Standards/Turkish Financial Reporting Standards ("TAS/TFRS") introduced by the Public Oversight, Accounting and Auditing Standards Authority ("POA") of Turkey and their annexes and interpretations pursuant to the provisions of the Capital Markets Board ("CMB") Communiqué II-14.1 on the Principles of Financial Reporting in Capital Markets ("Communiqué"), are presented to our shareholders and the public.

The members of the Board of Directors served the Board during the reporting period are shown below:

Board of Directors	
Name & Lastname	Title
Yıldırım Ali KOÇ	Chairman
Levent ÇAKIROĞLU	Vice Chairman
Selin Ayla ÜNVER	Member
İsmail Cenk ÇİMEN	Member
Ahmet Serdar GÖRGÜÇ	Member-General Manager
Ahmet Nezih OLCAY	Independent Member
Ali İhsan KAMANLI	Independent Member
Kenan GÜVEN	Independent Member

Chairman, Vice Chairman and members of the Board of Directors have been elected at the General Assembly Meeting on 18 March 2019 to serve until the next Ordinary General Assembly Meeting where 2019 activities will be reviewed.

Provisions on the Members of the Board of Directors are outlined in Articles 11, 12 and 13 of the company's Articles of Association and the Turkish Commercial Code provisions.

The committees established under the provisions of the Corporate Governance Communiqué of the Capital Markets Board and information on the board members involved in these committees are as follows:

Committee	Chairman	Member
Audit Committee	Ahmet Nezih OLCAY	Ali İhsan KAMANLI
Risk Management Committee	Kenan GÜVEN	İsmail Cenk ÇİMEN
Corporate Governance Committee	Ahmet Nezih OLCAY	Levent ÇAKIROĞLU, Hüseyin ODABAŞ

The revised working principles of the committees are available on the company website.

GENERAL ASSEMBLY

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ A.Ş.

BOARD OF DIRECTORS' REPORT 1 JANUARY - 31 DECEMBER 2019

Partnership and Capital Structure

As of 31 December 2019, the company's registered capital ceiling is TL 100 million, and the issued capital is TL 24 million. Following is a list showing shareholders with more than 10% of the company capital, their shares, and their ratio in the capital:

Shareholder's Title	Share Amount (TL)	Share (%)
Koç Holding A.Ş.	10,722,750	44.68
Ünver Holding A.Ş.	5,954,944	24.81
Other shareholders	7,322,306	30.51
Total	24,000,000	100.00

The parent company Koç Holding A.Ş. is controlled by Koç Family and the companies owned by Koç Family. Shareholder, Ünver Holding A.Ş., is controlled by Ünver Family. The balance representing 30.51% of our capital consists of shares with a nominal value of TL 7,322,306, other shareholders and publicly held shares.

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

Subsidiaries	Country	Nature of Operation	Area of Activity
Otokar Europe SAS	France	Sales and marketing	Automotive
Otokar Land Systems LLC	United Arab Emirates	Sales and marketing	Automotive
Otokar Europe Filiala Bucuresti SRL	Romania	Sales and marketing	Automotive
Otokar Central Asia Limited	Kazakhstan	Sales and marketing	Automotive
Joint Ventures	Country	Nature of Operation	Area of Activity
Al Jasoor Heavy Vehicles Industry	United Arab Emirates	Sales and marketing	Automotive

Otokar established Otokar Central Asia Limited, in order to organize export activities and increase export sales of the company in the region, in Astana International Finance Center (AIFC) which is a region with special status that accepts the principles of British Law in Nur-Sultan, Kazakhstan.

Also, the company's participation Al Jasoor Heavy Vehicle Industry LLC (Al Jasoor) which owns 49% of Otokar Land Systems LLC was established on May 28, 2017 in the United Arab Emirates, for the purpose of automotive sales and marketing. Otokar Land Systems Limited is followed under the section "Investments accounted with equity method" in the financial statements.

Amendments to the Articles of Association:

No amendments were made to the Articles of Association at the Ordinary General Assembly Meeting on 18 March 2019.

Dividends Distributed in the Last Three Years and their Ratios:

Otokar distributed cash dividends through its issued capital based on the following ratios:

Period	%
2016	250.00
2017	291.67
2018	300.00

The company made cash payments regarding all the 2018 accounting period dividends to its shareholders on 25 March 2019.

Our shareholders can access the company's corporate and financial data under the section "Investor Relations" on the website www.otokar.com

GENERAL ASSEMBLY

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ A.Ş.

BOARD OF DIRECTORS' REPORT 1 JANUARY - 31 DECEMBER 2019

AUTOMOTIVE INDUSTRY AND OTOKAR

Otokar operates in the automotive industry's commercial vehicles segment. Its product range consists of minibuses, midibuses and bus-like vehicles that are preferred for public transportation services and shuttle transportation for the commercial market. On the other hand, it comprises various types of 4x4 land vehicles, tactical wheeled/tracked armored vehicles, and tanks and their variants for the defense industry services. In addition, the company manufactures light trucks under the brand Atlas for the transportation and logistics industry.

MARKET – SALES - PRODUCTION

The developments of 2019 specific to the industry can be summarized below in line with the OSD (Automotive Manufacturers Association) data:

- Total vehicle production in 2019 declined 6% year-on-year, down to 1,461,244 units while automobile production also dropped 4% down to 982,642 units.

In 2019, the transportation vehicle market was down to 491,909 units with 23% decrease year-on-year, while the passenger car also regressed 20% down to 387,256 units.

In 2019, vehicle segment-based production showed the following developments year-on-year;

- Light Commercial Vehicles Segment
 - 8% increase in minibus
 - 24% decrease in midibus
 - 10% decrease in pickup
- Heavy Commercial Vehicles Segment;
 - 8% increase in bus
 - 23% decrease in heavy truck
 - 47% decrease in light truck production fared at the previous year.
- The imported light commercial vehicle sales recorded 36% year-on-year decrease in 2019, while the domestic light commercial vehicle sales decreased by 27%.

The imports of light weight vehicles (minibus and pickup) had 47% market share in this period.

PRODUCTION AND SALES

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

	2019		2018		Change (Units)		Change (%)	
	Production	Sales	Production	Sales	Production	Sales	Production	Sales
Small Bus	758	699	1,123	1,170	(365)	(471)	(33)	(40)
Bus	730	793	594	520	136	273	23	53
Armored Vehicles	231	207	195	192	36	15	18	8
Trailer	-	-	149	171	(149)	(171)	(100)	(100)
Truck	120	311	457	229	(337)	82	(74)	36
Total	1,839	2,010	2,518	2,282	(679)	(272)	(27)	(12)

According to the consolidated financial statements prepared in line with the relevant legislation, the company's 2019 revenue increased 45% year-on-year.

GENERAL ASSEMBLY

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ A.Ş.

BOARD OF DIRECTORS' REPORT 1 JANUARY - 31 DECEMBER 2019

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

	2019 (TL Thousand)	2018 (TL Thousand)	Change (%)
Domestic Sales	485,602	586,237	(17)
Exports	1,945,041	1,092,424	78
Total	2,430,643	1,678,661	(45)

The company's exports amounted to USD 339,673,000 in 2019 (USD 211,073,000 in 2018), accounting for 80% of the total turnover. (2018: 65%)

In 2019, capacity utilization was 14% (2018: 19%).

Otokar owes its growth to products with own design and intellectual property rights, developed by engineering and research development capabilities. Defining its strategies as growing in the defense industry, increasing the share of exports in its turnover and expanding with new models, Otokar strives to reach these targets.

INVESTMENTS

The Otokar's investment in R&D activities, which started several years ago following a major decision to accelerate research and development with the aim of attaining the rapid growth targeted in vehicles with owned intellectual property rights, continued in 2019. The company's total investments amounted to approximately USD 6.9 million in 2019.

ADMINISTRATIVE ACTIVITIES

The names and positions of the Senior Executives of our company in 2019 are listed below:

Name & Lastname	Position
Ahmet Serdar GÖRGÜÇ	General Manager
Hüseyin ODABAŞ	Assistant General Manager - Finance
Uğur Sedef VEHBİ	Assistant General Manager - Military Vehicles Marketing and Sales
Hasan Basri AKGÜL	Assistant General Manager - Domestic Sales and Marketing

Mr.Ali Rıza Alptekin who worked as an Assistant General Manager – Production and Procurement between 03.04.2006 – 20.06.2019 and who has been working as an Assistant General Manager – Commercial Vehicles since 21.06.2019, resigned from his position as of 15.11.2019.

Number of Group employees as of year-end:

Year-end	31.12.2019	31.12.2018
Office employees	676	630
Field employees	1,281	1,336
Total	1,957	1,966

GENERAL ASSEMBLY

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ A.Ş.

BOARD OF DIRECTORS' REPORT 1 JANUARY - 31 DECEMBER 2019

No incidents of disputes or labor movements were observed during the year.

Our company is subject to the Collective Labor Agreement signed between the Turkish Metal Workers Union and MESS (Turkish Employers' Association of Metal Industries) on 29 January 2020, and which came into force as of 1 September 2019.

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 93.51 (9.35) in 2018 to 94.02 (9.40) in 2019.

With its activities in social, economic and ethical aspects aiming at continually improving the value added to the society and contributing more to building a better future, Otokar has been listed in BIST's (Borsa Istanbul) Sustainability Index five consecutive years.

Otokar Sustainability Reports can be accessed on the corporate website www.otokar.com.

GENERAL ASSEMBLY

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ A.Ş.

BOARD OF DIRECTORS' REPORT 1 JANUARY - 31 DECEMBER 2019

FINANCIAL RESULTS

The company presents to the public its 2019 consolidated financial statements, which have been prepared in accordance with the Turkish Financial Reporting Standards that were implemented by the Public Oversight Accounting and Auditing Standards Authority (POA) pursuant to Capital Markets Board's (CMB) "Communiqué on the Principles of Financial Reporting in Capital Markets", II-14.1. Annexes and comments related to these standards were also considered in preparing the financial tables.

The financial tables, notes, and ratios showing the results of the activities in 2019 are also presented for your information.

The consolidated revenues of the company as of 2019 year-end amounted to TL 2,430,643,000 with gross profit of TL 919,051,000.

Pursuant to CMB regulations and according to consolidated financial statements prepared in accordance with Turkish Financial Reporting Standards, the company has posted a profit of TL 346,354,000 before tax, and a net profit of TL 351,592,000 in 2019.

At the Annual General Assembly Meeting on 18 March 2019, the upper limit for donations to be made by the company in 2019 was set at 0.2% of the previous year's revenues, and the company provided donations and aid amounting to TL 3,138,000 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, the 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 annexed herein, we present to your approval that: 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 TL 8.33 gross=net cash dividend per one share with nominal value of TL 1.00 at the rate of 833.33%,

Other shareholders be paid TL 7.08 net cash dividend per one share with nominal value of TL 1.00 at the rate of 708.33%, and

Payment of the dividends amounting to TL 200,000,000 start on Monday, 23 March 2020.

We have submitted an overview of the operations in 2019 and the generated results for your information.

Dear Shareholders,

We would like to extend our thanks to your esteemed delegation for your confidence in us and the attention and support during our term. We welcome you with warm regards.

Istanbul, 20 February 2020



Yıldırım Ali KOÇ
Chairman

GENERAL ASSEMBLY

INDEPENDENT AUDIT REPORT



1. Opinion

We have audited the accompanying consolidated financial statements of Otokar Otomotiv ve Savunma Sanayi A.Ş. (the “Company”) and its subsidiaries (collectively referred to as the “Group”), which comprise the consolidated statement of financial position as at 31 December 2019 and the consolidated statement of profit or loss, consolidated statement of other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended and the notes to the consolidated financial statements and a summary of significant accounting policies and consolidated financial statement notes.

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2019, and its financial performance and its cash flows for the year then ended in accordance with Turkish Financial Reporting Standards (“TFRS”).

Full text of the opinion pertaining to the Independent Audit Report is presented on page 76.

GENERAL ASSEMBLY

SUMMARY OF FINANCIAL TABLES

Consolidated Balance Sheet

Thousand TL	2019	2018
Total Current Assets	1,942,644	1,802,481
Non-current Assets	735,073	500,265
Total Assets	2,677,717	2,302,746
Total non-current Liabilities	1,037,747	868,140
Total Liabilities	1,002,324	1,045,020
Total Equity	637,646	389,586
Total Liabilities and Equity	2,677,717	2,302,746

Consolidated Income Statement

Thousand TL	2019	2018
Sales	2,430,643	1,678,661
Cost of Goods Sold	(1,511,592)	(1,085,704)
Gross Profit	919,051	592,957
Operating Profit	463,946	231,412
Profit before Tax	346,354	121,145
Tax Income/Expense	5,238	43,191
Profit for the Period	351,592	164,336
Earnings Per Share (kr)	1.465	0.685

GENERAL ASSEMBLY

BOARD OF DIRECTORS



Yıldırım Ali Koç
Chairman

Ali Y. Koç (born 1967, Istanbul) received his bachelor's degree from the Management Faculty of Rice University (USA) and MBA from Harvard Business School (USA). Mr. Koç started his career at American Express Bank as a Management Trainee (1990-1991) and continued as an Investment Analyst at Morgan Stanley Investment Bank (1992-1994). He joined Koç Holding in 1997 and held senior-level positions until 2010 including new business development and information Technologies as well as President of Corporate Communications and IT Group. After serving as Member of the Board of Directors at Koç Holding for over 8 years, he was elected as Vice Chairman in February 2016.

Mr. Koç is a non-executive director, but does not qualify to serve as an independent board member according to CMB Corporate Governance Principles. Mr. Koç, whose appointments in the last decade are stated above, has been a Board member at Otokar since 2015.



Levent Çakıroğlu
Vice Chairman

Levent Çakıroğlu (born 1967, Ankara) received his bachelor's degree in Business Administration from Ankara University's School of Political Sciences and his master's degree from Illinois University (USA). Mr. Çakıroğlu began his career in 1988 as a Financial Analyst at the Ministry of Finance. After teaching at Bilkent University as Part-time Lecturer (1997-1998), he was appointed as Vice President of the Financial Crimes Investigation Board at the Ministry of Finance. After joining Koç Holding as Finance Group Coordinator in 1998, he served as CEOs of Koçtaş (2002-2007), and Migros (2007-2008). He was appointed as the CEO of Arçelik in 2008, and also served as the Koç Holding Durable Goods Group President starting from April 2010. He was appointed as the CEO of Koç Holding A.Ş. in April 2015. Mr. Çakıroğlu currently serves as the CEO and has been a Board Member of Koç Holding A.Ş. since April 2016.

Mr. Çakıroğlu is a non-executive director, but does not qualify to serve as an independent board member according to CMB Corporate Governance Principles. Mr. Çakıroğlu, whose appointments in the last decade are stated above, has been a Board member at Otokar since 2015. He also serves on the Boards of several Koç Group companies.



Selin Ayla Ünver
Board Member

Selin Ünver (born 1983, Geneva) completed her education in Switzerland, and gained experience in finance and accounting. She is currently the Chairwoman of Ünver Holding A.Ş.

Ms. Ünver is a non-executive director, but does not qualify to serve as an independent board member according to CMB Corporate Governance Principles. Ms. Ünver, whose appointments in the last decade are stated above, has been a Board member at Otokar since 2018.



İsmail Cenk Çimen
Board Member

İsmail Cenk Çimen (born 1967, Istanbul) studied Industrial Engineering at Istanbul Technical University, and later attended Executive Development Programs at University of California, Los Angeles and Stanford University (USA). Joining the Koç Group as a Management Trainee at Nasoto (1991), he went on to serve as Sales Coordinator, Regional Director and Import Director at Otosan Pazarlama (1993-1996). Following his position as Fleet Sales Manager at Ford Otosan (1996-1998), he was appointed General Manager at Otokoç Ankara (1998). Mr. Çimen became the General Manager of Otokoç, which were brought together under one umbrella, in 2001. In addition to his role at Otokoç, Mr. Çimen was also appointed General Manager of Birmot A.Ş. in 2005, and management of Avis rent a car business was added to his responsibilities the same year. İsmail Cenk Çimen is the President of the Automotive Group at Koç Holding since June 2009.

Mr. Çimen is a non-executive director, but does not qualify to serve as an independent board member according to CMB Corporate Governance Principles. Mr. Çimen, whose appointments in the last decade have been stated above, currently serves on the Boards of several Koç Group companies.

GENERAL ASSEMBLY

BOARD OF DIRECTORS



Ahmet Serdar Görgüç
Board Member
General Manager

Ahmet Serdar Görgüç (born 1959, İzmir) graduated from the Department of Mechanical Engineering at Boğaziçi University and later earned a master's degree in Business Administration from Istanbul University. Mr. Görgüç joined Koç Group in 1982, working at the Group's R&D Center. He served as the Automotive Unit Manager at the R&D Center until 1985, and was appointed Advanced Projects Design Manager at Otokar the same year. Mr. Görgüç served as Product Engineering Manager (1989-1995), and as Assistant General Manager of Engineering (1995-2005). He has been the General Manager of Otokar since 2006.

Mr. Görgüç is an executive director and does not qualify to serve as an independent board member according to CMB Corporate Governance Principles. Mr. Görgüç, whose appointments in the last decade are stated above, has been a Board member at Otokar.



Ahmet Nezi Olcay
Independent Board Member

Ahmet Nezi Olcay (born 1947, Istanbul) received his bachelor's degree in Business Administration from the Istanbul Academy of Economics and Commercial Sciences. Starting his career at Tofaş Türk Otomobil Fabrikası A.Ş. in 1971, he went on to serve as Accounting Department Supervisor, Accounting Manager, Finance Manager, General Manager of Finance, General Manager of Foreign Affairs, Foreign Affairs Group Director, and as Accounting, Finance and Control Group Director with A Group First Level authority, respectively. After working continuously for 36 years at Tofaş Türk Otomobil Fabrikası A.Ş., he retired in 2007. During his term at Tofaş Türk Otomobil Fabrikası A.Ş., Mr. Olcay served on the boards of various Tofaş subsidiaries as Member and Vice Chairman. He then served as General Coordinator, Vice Chairman and later as Chairman of the Board of Directors at Plastiform Sanayi ve Ticaret A.Ş. (2008-2012).

Mr. Olcay, who does not have executive duties, qualifies as an independent board member according to CMB Corporate Governance Principles. He has not been affiliated with Otokar or Otokar's shareholders, Koç Holding A.Ş. and Ünver Holding A.Ş. in the last five years. Mr. Olcay is a Independent Board member at Otokar since 2014.



Ali İhsan Kamanlı
Independent Board Member

Ali İhsan Kamanlı (born 1952, Yozgat) is a graduate of Mechanical Engineering at Istanbul Technical University. He served as Plant Manager and Deputy General Manager (1973-2008) at Ford Otosan A.Ş., and retired at the end of his tenure. Mr. Kamanlı worked as Advisor to General Manager at Otokoç A.Ş. (2009-2010), and served as an Independent Board Member at various non-Group companies (2012-2016).

Mr. Kamanlı, who does not have executive duties, qualifies as an independent board member according to CMB Corporate Governance Principles. The roles he has assumed in the last ten years have been stated above, and he has left all of these positions at the end of the respective terms. Mr. Kamanlı is a Independent Board member at Otokar since 2018.



Kenan Güven
Independent Board Member

Kenan Güven (born 1947, Artvin) is a graduate of Civil Engineering at Istanbul Technical University. He has worked as TEK Construction Department Head and in various positions at STFA companies (1972-1978). After his role as Project and Sales Manager at Demma Çelik Hasır A.Ş. (1976-1978), he joined Otokar Otomotiv ve Savunma Sanayi A.Ş. in 1981 as Public Sales Manager and retired from this position in 2009 at the end of his tenure. He later served as Board Member, General Manager and Chairman of Ve-Ge Yapıştırıcı Bant ve Hassas Kağıt San. A.Ş. (2009-2014). Since November 2016, Mr. Güven is serving as the Chairman of Turkish Heart Foundation.

Mr. Güven, who does not have executive duties, qualifies as an independent board member according to CMB Corporate Governance Principles. Mr. Güven is a Independent Board member at Otokar since 2018.

GENERAL ASSEMBLY

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ A.Ş. PROFIT DISTRIBUTION POLICY

Our company distributes its profit in accordance with the provisions of the Turkish Commercial Code, the Capital Markets Law, the Tax Law and other applicable regulations as well as the relevant articles of our company's Articles of Association. A balanced and consistent policy is followed in the distribution of profit among shareholders and the company's beneficiaries in accordance with the Principles of Corporate Governance and our long term company strategy, investment and finance policies, profitability and cash position is considered when distributing the profit.

In principle, a minimum 50% of the distributable profit for the period which is calculated in accordance with Capital Market Legislation and Legal Records is distributed in cash or as bonus shares, as long as related regulations and financial position allow.

Profit distribution is planned to be carried out within one month, at most, following the Ordinary General Assembly. The date for the profit distribution is set in the Ordinary General Assembly. If authorized, the Ordinary General Assembly or the Board of Directors may decide to distribute profit in instalments in accordance with Capital Market Legislation.

According to the Company's Articles of Association, the Board of Directors may distribute profit advances as long as it is authorized in the Ordinary General Assembly and complies with Capital Market Regulations. And that authorization is limited to one year.

GENERAL ASSEMBLY

01.01.2019-31.12.2019 FISCAL YEAR DIVIDEND PAYMENT PROPOSAL

It is an attachment of the decision of Board of Directors which is dated 14.02.2020 and numbered 2020/05

According to our consolidated financial tables which are audited by PwC Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik. A.Ş. and prepared in accordance with Turkish Financial Reporting Standards (TFRS) relating to the 01.01.2019-31.12.2019 fiscal year TL 351,591,603 net profit was obtained for parent company and profit distribution suggestion of Board of Directors prepared in compliance with the attached Profit Distribution Table pursuant to the Capital Market Board's (CMB) II-14.1 "Communique on Principles of Financial Reporting in Capital Markets" by considering Profit Distribution Policy, long term company strategy, capital requirements of our company, investment and finance policies, profitability and cash status. Distribution of dividend will begin on 23.03.2020 upon General Assembly's approval.

Otokar Otomotiv ve Savunma Sanayi A.Ş. Dividend Distribution Table 2019 (TL)

1.	Paid-in/Issued Capital		24,000,000
2.	Total Legal Reserves (According on Legal Records)		73,758,147
	Information concerning any privileges provided in the articles of association regarding profit		-
		According to CMB	According to Statutory Records
3	Current Period Profit	346,353,956	288,660,528
4	Taxes Payable (-)	(5,237,647)	-
5	Net Current Period Profit (=)	351,591,603	288,660,528
6	Losses in the Previos Years (-)		
7	Primary Legal Reserve (-)		
8	NET DISTRIBUTABLE CURRENT PERIOD PROFIT (=)	351,591,603	288,660,528
9	Donations made during the year (+)	3,138,362	
10	Donations -Added Net Distributable Current Period Profit	354,729,965	
11	First Dividend to Shareholders		1,200,000
	- Cash	177,364,982	
	- Bonus Shares		
	- Total		
12	Dividend Distributed to Owners of Privileged Shares		
13	Other Dividend Distributed		
	- To The Members of the Board of Directors		
	- To The employees		
	- To None Shareholders		
14	Dividend to Owners of Redeemed Shares		
15	Second Dividend to Shareholders	22,635,018	198,800,000
16	Legal Reserves	19,880,000	19,880,000
17	Status Reserves		
18	Special Reserves		
19	EXTRAORDINARY RESERVES	131,711,603	68,780,528
20	Other Distributable Resorces		
	- Previous year's profit		
21	Legal Reserves Allocated for Other Source as Proposed to be Distributed		-

	Group	Cash Dividend Amount (TL)		Total Dividend Amount (TL) / Net Distributable Cunneht Period Profit (%)	Dividend to be Paid for Share With Per Value of TL 1	
		Cash (TL)	Bonus (TL)	Ratio (%)	Amount (TL)	Ratio (%)
Gross	-	200,000,000.00	0	56.88%	8.33333	833.333
	TOTAL	200,000,000.00	0	56.88%	8.33333	833.333
Net	-	170,000,000.00	0	48.35%	7.08333	708.333
	TOTAL	170,000,000.00	0	48.35%	7.08333	708.333

GENERAL ASSEMBLY

RÉSUMÉS OF THE CANDIDATES FOR THE BOARD OF DIRECTORS

Yıldırım Ali Koç (Board of Directors Candidate)

See Page 28 Board of Directors' Résumés

Levent Çakıroğlu (Board of Directors Candidate)

See Page 28 Board of Directors' Résumés

Selin Ayla Ünver (Board of Directors Candidate)

See Page 28 Board of Directors' Résumés

İsmail Cenk Çimen (Board of Directors Candidate)

See Page 28 Board of Directors' Résumés

Ahmet Serdar Görgüç (Board of Directors Candidate)

See Page 29 Board of Directors' Résumés

Ali İhsan İlkbahar (Board of Directors Candidate)

Mr. İlkbahar (b. 1939) graduated from Istanbul Technical University with an M.Sc. in Mechanical Engineering in 1962 (M.Sc.) and following a two-year military service, started working as a Manufacturing Engineer at Otosan in 1964. He spent his entire professional life at Ford Otosan where he served as the General Manager during the last 14 years, when he was also the Koç Holding Ford Group Head, and retired at the beginning of 2000. He was involved in the construction project of the Otosan Engine Plant in Eskişehir İnönü (1977-1980) and led the Gölcük Plant project and Connect vehicle project (1997-2000). He was the President of the Automotive Manufacturers Association from 1989 through February 2004. He served on the Board of Ford Otosan from 1991 to 2012 and was reelected as a member on 25 March 2014. Mr. İlkbahar has also served on the Corporate Governance Committee at Ford Otosan since April 21, 2014. Mr. İlkbahar, who does not have executive duties, qualifies as an independent board member according to CMB Corporate Governance Principles. The roles he has assumed in the last ten years have been stated above.

Ali İhsan Kamanlı (Board of Directors Candidate)

See Page 29 Board of Directors' Résumés

Kenan Güven (Board of Directors Candidate)

See Page 29 Board of Directors' Résumés

"Declarations of Independence" by the nominated Independent Members of the Board of Directors are provided on page 33.

GENERAL ASSEMBLY

DECLARATION OF INDEPENDENCE OF THE BOARD OF DIRECTORS CANDIDATES

I was nominated to serve as "Independent member" in Otokar Otomotiv ve ve Savunma San. A.Ş. (the company) in line with the legislation. Articles of Association and Capital Markets Board's Corporate Governance Communiqué. Within this context I declare that:

- a) There has been no hiring relationship that includes important duties and responsibilities between the company, companies that the company controls or has significant control over, legal entities that these companies control and myself, my spouse, in laws and blood relatives up to second kin in the last 5 years; I also declare that I have not held more than 5% of the capital or voting rights or preferential shares, either together or alone, and that I have not any significant commercial relation,
- b) I have not worked as a partner (holding 5% of the shares in the company or more) or as a manager who has important duties and responsibilities, and I have not been a board member in companies which the company obtains services of products from, or sells service or products to, particularly auditing (including tax auditing, legal auditing, internal auditing) rating and consulting services, during the transaction period within the framework of agreements in the last five years.
- c) I have sufficient professional training, knowledge and experience to fulfill the duties on the grounds of my title as an independent board member.
- d) I will not work in a state institutions or organizations on a full time basis, apart from in the capacity of an academic pursuant with legislation.
- e) I am a resident in Turkey according to the Income Tax Code (G.V.K) dated 31/12/1960 and numbered 193.
- f) I gave sound ethical standards, a professional reputation and experience that allow me to contribute positively to the company's operations, to maintain my neutrality in conflicts of interest between shareholders of the company to decide freely by taking into account the rights of stakeholders.
- g) I am able to devote time to the company's work to the extent that I may follow the operations of the company's activities and follow the requirements of my mandate.
- h) I have not served as a board member in the company's board for more than 6 years in the last 10 years.
- i) I do not have responsibility in the capacity of an independent board member in more than three companies that are controlled by the company or its shareholders, or which control the company, or in more than five listed companies total,
- j) On behalf of the legal entity as a board member, I am not registered or announced.



ALİ İHSAN İLKBAHAR



ALİ İHSAN KAMANLI



KENAN GÜVEN

GENERAL ASSEMBLY

REMUNERATION POLICY FOR SENIOR EXECUTIVES AND MEMBERS OF BOARD OF DIRECTORS

This policy document identifies remuneration system and applications for the Board of Directors and Senior Executives who have managerial responsibilities under Capital Markets Board regulations.

A fixed remuneration is determined to be valid for all members of the board of directors at the Annual General Meeting of the company each year.

Members of the board of directors who have executive duties are paid within the scope of the policy determined for the senior executives detailed below.

For compensation of the independent members of the board of directors, the payment plans based on the performance of the company are not used.

Payment to the members of the board of directors is made on pro rata basis by taking into account the duration they were on duty between the date of appointment and the date of resignation. Expenses incurred by the members of the board of directors on account of their contributions to the company (transportation, telephone, insurance, etc.) may be paid by the company.

Senior executive salaries are consisted of two compounds; fixed and performance based.

Fixed salaries of Senior Executives are established in accordance with the international standards and the legal obligations by taking into account the macro-economic data in the market, the compensation policies prevailing in the market, the size and long term targets of the company and the positions of the individuals.

Bonuses for the Senior Executives are calculated according to the premium basis, the performance of the company and the individual performance. Some information about the criteria is summarized below:

- **Bonus Basis:** Premium Bases are updated at the beginning of each year and vary according to the job size of the positions of the executives. In the updating of the premium bases, the top management premium policies in the market are taken into account.
- **Performance of the Company:** Performance of the company is obtained by measuring the financial and operational targets (market share, exports, overseas operations, productivity, etc.) assigned to the company at the beginning of each year at the end of the period. When the targets of the company are established, that the success is sustainable and includes improvements compared with the previous years are the principles which are importantly taken into account.
- **Individual Performance:** In the determination of the individual performance, targets related with the employee, the client, the process, the technology and the long term strategy are taken into account together with the targets of the company. In the measurement of the individual performance, the long term sustainable improvement principle outside the financial areas as well is taken into account in parallel with the performance of the company.

In case of resignation of the senior executives of our company, resignation premium can be paid by taking into consideration the term of appointment, term of senior executive, provided contribution, last target premium before resignation date, salary at last year and premium information.

Total amounts as determined based on these principles and paid to the members of the board of directors during the year are submitted to the approval of the shareholders at the next General Assembly.

ON EVERY PATH WE SET OFF,
SAYING, “WE CAN!”, WE PROVED
OURSELVES.



WE TRANSCENDED BORDERS WITH
OUR NAME AND OPENED UP TO
THE WORLD.





COMMERCIAL VEHICLES

OTOKAR BUSES RANGING FROM 7 METERS TO 18.75 METERS IN LENGTH ARE CURRENTLY USED IN MORE THAN 50 COUNTRIES FOR PASSENGER TRANSPORTATION.



In 2019, the 7-10-meter small and medium size bus segment and the 12-18-meter public transportation bus segment, in which Otokar operates, shrank 54 percent in Turkey.* Despite this tightening, Otokar succeeded in closing the year as the overall leader of its respective segments. As such, one of every three buses sold in 2019 in the domestic market was Otokar branded while the company confirmed its market leadership for the eleventh time.

Sales in the Turkish small and medium size bus segment declined nearly 45 percent.* Meanwhile, Otokar improved Sultan Comfort bus in this segment with new features to respond to customer requirements. Sultan Comfort, known for its low operating costs, superior performance and durability, was equipped with luxury seats and special features for tourism transportation, and optional three-point seat belts for student transportation, and its capacity was increased to accommodate 29+1 passengers, making it suitable

for personnel transportation, and a versatile, multi-tasking bus. With the revival observed in the tourism sector, Sultan Mega tourism bus, which stands out with its high passenger and luggage capacity, was among the first choices of the clients. Driven by these developments, Otokar completed the year as the leader of the small and medium size bus segment, with one out of every three small or medium buses sold in Turkey bearing the Otokar brand. On the other hand, the 12-18-meter public transportation bus segment narrowed above the total market levels. Nevertheless, Otokar increased its share by nine points in a market that shrank 58 percent.

Orders and deliveries

As Otokar continued to reinforce the public transportation fleets of municipalities across Turkey with innovative and ecofriendly vehicles, ESHOT, an Izmir Metropolitan Municipality company, ordered Kent buses in 2019. With this order, the

11TH TIME
TURKEY'S MARKET LEADER

number of Otokar buses serving Izmir Metropolitan Municipality, Turkey's third largest city, reached 350 units.

29% growth in bus exports

Otokar, which sells buses to 50 countries across the world, and mainly in Europe, increased its bus export volume in units by 29 percent in 2019. With the new orders, Otokar's total vehicle park exceeds 2,200 units in France alone. Otokar also received bus orders for significant quantities from Jordan, Italy and Serbia.

As the export activities of Otokar increased, deliveries of public transportation buses to municipalities began to stand out. A fourth order was received from Malta, where Otokar buses are widely used, and with the delivery of 40 right-hand drive Kent public transportation buses, the number of Otokar branded buses on the roads of Malta exceeded 240. Furthermore, deliveries to the Municipality of Bucharest, which ordered the highest number of buses from a Turkish bus brand in one item, were completed, with 400 Kent buses now operating in Bucharest streets.

New products

For Otokar, 2019 was a year marked by outstanding work in product design and development efforts. The low-floor variant of Territo U, which began operating in Italy's Tuscany region in 2019, after several cities in Europe, was added to Otokar Europe's product lineup. The 12-meter electric bus e-Kent C, developed in the Otokar R&D Center, made its debut at the UITP Global Public Transport Summit in Stockholm, Sweden. On the other hand, the school bus version of Territo U was developed and showcased at Busworld Europe Brussels, the biggest bus and coach exhibition in the world.



36% increase in truck sales

In 2019, the domestic 7.5-8.5 ton light truck market shrank 28.5 percent. Nonetheless, Otokar increased its sales volume by 36 percent in units with its light truck, Atlas. The truck's toughness under challenging conditions, high power and performance features have been instrumental in its becoming the vehicle of choice, especially by public institutions and organizations.



*Calculation is based on Otokar's market research and Automotive Manufacturers Association (OSD) data, and provides an estimated ratio.

DEFENSE INDUSTRY

MORE THAN 35 THOUSAND MILITARY VEHICLES PRODUCED BY OTOKAR, THE ONLY NATIONAL LAND SYSTEMS MANUFACTURER IN TURKEY, ARE ACTIVELY USED ACROSS A VAST GEOGRAPHY.



According to Stockholm International Peace Research Institute's (SIPRI) studies, global military spending was estimated at \$1.822 billion in 2018, accounting for 2.1 percent of the world's gross domestic product (GDP). In the defense industry, sales of weapons and military services by the world's 100 largest companies amounted to \$420 billion in 2018, with a year-on-year increase of 4.6 percent. On the other hand, Turkey allocated TL 102.8 billion for defense and security spending in 2019 and the anticipated allocation for 2020 was raised to TL 141.1 billion. This amount constitutes 12.8 percent of Turkey's 2020 budget.

In 2019, Turkey's defense and aerospace industry exports rose to \$2.7 billion, with an increase of 35 percent year-on-year. In terms of the

industry's export items, land vehicles constituted the second highest export group after aerospace products. With 73 percent, land vehicles achieved the highest increase in exports, amounting to nearly \$536 million in 2019. Total exports of vehicles, combined with other components such as spare parts, reached \$616.9 million*.

Otokar, the only national land systems manufacturer in Turkey, doubled its export volume of land vehicles year-on-year. In 2019, the company also focused on delivering the military vehicles ordered by local clients as well as friendly and allied countries. Furthermore, deliveries of orders received from friendly and allied countries were also completed. Ural, Cobra, Cobra II and 8x8 armored vehicles constituted Otokar's main export items.

IN **35+** COUNTRIES

New vehicles

Otokar, operating with the mission to offer the most suitable solutions by analyzing client expectations and requirements, added new armored vehicles to its product range in 2019. With the Akrep II range of armored reconnaissance and weapons platform added to the product lineup in 2019, Otokar took its claim in the defense industry to a higher level. Akrep IIe, the first member of the next generation Akrep II armored vehicles, also became Turkey's first electric armored vehicle.

The Ural Special Operations Vehicle (Ural SOV), the latest variant of the versatile and modular Ural platform, was another vehicle developed in 2019. The new variant of Ural, which is actively used in a variety of missions at home and abroad, delivers superior mobility as well as high ballistic, mine and IED protection for its crew, thanks to the armored semi-body, base and fire wall.

Cobra II mine-protected armored emergency ambulance, a new variant of the modular Cobra II platform adaptable for different missions, was also introduced in 2019. Currently in use at home and abroad, the Cobra II Ambulance, designed to provide high terrain capabilities with mine and ballistic protection, is intended to carry out all interventions expected of a standard emergency ambulance. The lightweight Cobra II Ambulance can deliver high performance even on wet and muddy terrain and enter into the heart of combat fields to evacuate wounded people and carry out emergency intervention in dangerous zones.

Meeting with users

Otokar, with its design, development, testing and qualification capabilities in land vehicles, participated in a number of international defense and security fairs in its target markets and showcased its latest products throughout the year. In addition to the new products, Otokar also introduced Tulpar medium tank

to the local users for the first time.

Medium weight tanks, such as Tulpar come with superior mobility and actively serve as reconnaissance and firing support vehicles in modern armies, and given the changing combat conditions and different levels of threat, they are considered a growing need in the industry.



Qualified NATO and UN supplier

Currently, more than 35 thousand Otokar products with owned intellectual property rights, are used in over 35 countries. Selling the products that Otokar, a qualified NATO and United Nations supplier, develop, tailor and manufacture to meet the requirements of its users with its own technology, design and applications to other countries is subject to export licenses from the relevant governments.

*According to data by Defense and Aerospace Industry Exporters' Union

R&D ACTIVITIES

OTOKAR'S ACTIVITIES TO DESIGN AND DEVELOP NEW PRODUCTS CONTINUE SEAMLESSLY, WITH R&D SPENDING IN THE LAST 10 YEARS AMOUNTING TO TL 1.1 BILLION.



Otokar aims to develop new equipment and applications to keep up with the requirements of the future; and for this purpose, the company has allocated 8 percent of its revenues for research and development activities in the last ten years, bringing R&D spending to TL 1,1 billion in that time period. As the company's activities to design and develop new products continue seamlessly, Otokar filed 17 patent applications in 2019 and kept expanding its product range with new products as well as new versions of existing products.

Alternative fueled vehicle technologies

Otokar, also focused on alternative fueled vehicle technologies, added two new electric vehicles, one military and one commercial, to its product range in 2019.

Akrep II: The new generation Akrep II armored vehicle product range, developed by Otokar in 1995 based on the Akrep armored vehicle line with a proven track record in the domestic and export markets, was introduced in May 2019. Otokar, a supplier of NATO and the United Nations with its wealth of knowhow and advanced technologies in the defense industry against current and future expectations and threats, developed the new generation Akrep II to meet all expectations of modern armies.

Akrep II, a part of the new generation 4x4 armored vehicle lineup and designed by Otokar as an armored reconnaissance and weapons platform with a low silhouette, is engineered to meet the current and future requirements of armies. In addition to its mobility performance

296 PATENT AND INDUSTRIAL DESIGN APPLICATIONS

on all terrains, the vehicle, which offers unparalleled maneuverability, comes with an infrastructure that enables the use of alternative power groups such as electric, diesel and hybrid. Akrep II, with power generation and transmission systems, sensors, computers, communication and targeting systems all integrated into a single system, offers an infrastructure to accelerate transition to autonomous vehicles.

The electric armored vehicle Akrep IIe was introduced as the first version of the Akrep II product range. Equipped with a powerful electric engine and an advanced battery pack, Akrep IIe is extremely agile with increased mobility and swiftness, and capable of running at considerably low level of acoustic and thermal signature compared to conventional armored vehicles. Akrep IIe is well suited to meet the challenging requirements of armies across the world and to respond to tactical performance expectations, offering many benefits, especially in fuel efficiency, mobility, survivability and integrated logistics support.

e-Kent C: Otokar has been working on alternative fueled buses for many years and produced Turkey's first hybrid bus in 2007. The many firsts that Otokar introduced to the industry continued in 2012 with the introduction of Turkey's first electric bus in 2012, and the new electric bus e-Kent C in 2019. e-Kent C, featuring a dynamic, elegant and modern look and a capacity of up to 95 passengers, is designed to contribute to a cleaner environment, quieter traffic, lower operating costs and higher efficiency.

Otokar R&D Center

The Otokar R&D Center is equipped with simulators, test equipment and computer systems to generate and evaluate information for faster testing of manufactured vehicles with higher technology. Otokar's R&D capabilities include CAD programs for product development, prototyping workshops and software, computer-assisted analysis and simulation software, and test-focused apparatus and software. Otokar's R&D Center houses a Climatic Test Chamber with Dynamometer, the one and only of its kind in Turkey and among a handful in Europe, and Turkey's highest capacity hydraulic road simulator. The Center is also home to Turkey's largest and the world's best state-of-the art Electromagnetic Compatibility Test Center (EMC/EMI), which serves as an independent accreditation center for all R&D activities of domestic and foreign automotive and defense industries.



CREATING VALUE FOR STAKEHOLDERS



OTOKAR AIMS TO CREATE VALUE FOR ITS CLIENTS, PARTNERS AND EMPLOYEES AND CONTINUES TO INTRODUCE PRACTICES THAT MAKE LIFE EASIER FOR ALL ITS STAKEHOLDERS.

Otokar aims to create value for all its stakeholders and continuously measures the satisfaction of its clients, partners and employees. With activities carried out for this purpose in 2019, the company introduced practices that make life easier for users, maintained its relations with existing and potential partners based on mutual trust and collaboration, and worked to improve efficiency.

Users

For Otokar, which engages with clients and users at nearly 300 sales and aftersales service centers, ensuring customer satisfaction is a crucial matter. In order to increase

the satisfaction that its products deliver and to create benefits for customers, Otokar launched in late 2018 original Otokar Spectra lubricants, developed for both commercial and defense vehicles, at authorized aftersales service centers and spare parts dealers. As the sales continued in 2019, 60 authorized aftersales service centers across Turkey began using original Otokar Spectra lubricants and antifreeze solutions. By offering Otokar Spectra, Otokar aims to provide additional benefits to the users with products such as engine, transmission and axle lubricants, and antifreeze, which are key for vehicle maintenance in the automotive industry.

Suppliers

In order to maintain its competitiveness in both domestic and international markets, Otokar considers all local and global sourcing options and prioritizes suppliers in proximity. The development and management of a competitive supply chain in world standards in terms of quality, lead time, cost and cooperation are major goals for the company.

Efficiency

Otokar is well aware that activities that improve efficiency result in significant gains. Accordingly, the company introduced Kaizen practices that aim to create a culture of continuous improvement in work processes, services and products and that also involve the employees and support their development. With these principles, which can be seen as the seeds of management systems, field employees carried out more than 1,250 Kaizen activities throughout the year. Following assessments, these activities were integrated into the system and put into practice. Furthermore, a Kaizen Championship reward was introduced to encourage adoption and implementation of such activities by increasing the visibility and appreciation of the best practices. In addition to all of these efforts, Otokar rewarded 945 employees in 2019 as part of its reward and recognition processes.

About Kaizen practices

Kaizen practices aim at continuous and never-ending improvement in every activity and function. The company plans to spread the Kaizen culture across all levels from top to bottom to ensure that even the smallest improvement is made in a systematic manner, and to further improve the quality of the vehicles manufactured by turning these practices into habits among the employees. Since the improvements created through Kaizen practices are viable, bring out the creativity of the employees and do not require large investments, they are easily adopted.



DIGITAL TRANSFORMATION

OTOKAR AIMS TO BE A PIONEER AND LEADER OF DIGITAL TRANSFORMATION IN ITS RESPECTIVE INDUSTRIES.



Otokar regards digital transformation as an equally important and crucial opportunity as entering new production segments and follows the requirements of this day and age with a proactive approach toward preserving its continually evolving structure. The company continued to work on digital transformation projects that are implemented with the aim of leading digital transformation in its respective industries. Seminars and training programs on raising digital transformation awareness also continued throughout 2019. As part of the “Designing the Future for my Country” project launched by Koç Group with the aim of building

a meaningful future for the society, the company also hosted seminars with volunteers. In total, 1,149 Otokar employees attended 16 planned trainings. Furthermore, 50 children of Otokar employees attended the three-week Coding, Robotics and 3D Design Workshop, organized in partnership with Turkish Employers' Association of Metal Industries.

Projects

Otokar implemented a number of projects within the scope of its digital transformation efforts throughout 2019.

Integrated Quality System – From Design to Customer: All the data obtained about the entire lifecycle of a

vehicle designed by Otokar from the moment it enters production line until the end of its life, has been integrated on a single platform. With the smart prioritization system built into the system, resources are now utilized much more efficiently.

Otopedia: Otopedia is a web-based platform that enables Otokar employees to share information, images and documents that they believe to be useful from fairs, seminars or trainings with each other.

Publishing Process Optimization: Integration between engineering processes and in-house operational processes has been enhanced.

SPOT-Smart Spare Parts

Optimization Tool: This tool is used to predict the spare parts that customers will need based on historical order data and other inputs that affect such data. The objective of the project is to have the right parts in stock at the right time, consequently improving customer satisfaction and lowering inventory costs.

OTOperasyon: This system is used to digitalize processes such as preparing, publishing, viewing and updating the operation pages that describe the vehicle production stages to the smallest detail and ensure the production quality. This allows continuous monitoring of all the changes that affect the relevant pages and easy corrections via the system.

Trackable and Digital RFQ

Process: This makes the procurement process of a designed piece more transparent and easier to analyze and track. In addition to optimizing the procurement processes in terms of resources and time, it also comes with analytical capabilities, already delivering cost savings in parts.

Otokar Employee App: The app enables Otokar employees to be informed of the company-related developments when they are not at their computers and to easily solve their administrative processes.

Vehicle Underbody Imaging

Processing: The project involves inspection of the vehicles returning from road tests to be performed with automatically guided, mounted cameras and comparison of the situation to what it should be.

1,149

EMPLOYEES RECEIVED TRAINING ON 'DESIGNING THE FUTURE FOR MY COUNTRY'

**Otokar is in Horizon 2020 with its digital transformation project**

As an inevitable outcome of the Internet of Things (IoT) concept, industrial systems are becoming increasingly connected to the Internet and networks. Consequently, one of the biggest risks that the manufacturing sites will face in the future will be cyberattacks. Otokar took a new step to ensure the security of the Industrial Robotic Quality Control System, developed within the scope of its digital transformation projects. Aiming to maximize the system's safety and cyber security, Otokar joined the international VALU3S (Verification and Validation of Automated Systems' Safety and Security) project as a business partner to develop joint software. As another important development of 2019 in this context, the project came ahead of 30 other project proposals and was awarded a grant by Horizon 2020, the European Union Research and Innovation Framework Program. In this three-year project, Otokar will find the opportunity to work with 37 institutions including some of Europe's top private companies and universities.

SUSTAINABILITY



OTOKAR'S SUSTAINABILITY STRATEGY IS BUILT ON A BUSINESS MODEL FIRMLY COMMITTED TO BEING ENVIRONMENT FRIENDLY AND UPHOLDING ETHICAL PRINCIPLES.

Otokar's sustainability strategy is built on being environment friendly, firmly committing to and upholding ethical business principles, aiming for operational excellence and fully meeting users expectations to preserve its national shareholding structure and to increase profitability through a business model focused on developing highly technological value added products. Otokar adopts and actively supports

UN Global Compact Principles, signed by Koç Holding in 2006 on behalf of all Group companies. The activities that the company carries out to create long-term value by incorporating economic, environmental and social factors with corporate governance principles are described in detail in the Sustainability Report, which can be accessed on the corporate website: www.otokar.com.

5TH TIME IN THE BIST SUSTAINABILITY INDEX

Environment

Otokar undertook a number of activities in 2019 for the continued development of environment-friendly products and production processes as one of the key topics of its sustainability program. Following the inspections conducted in 2019, the company's ISO 14001:2015 Environmental Management System certificate was renewed.

Corporate social responsibility

Otokar, a signatory of UN Global Compact, embraces the words of Vehbi Koç, the founder of Koç Holding, "We exist as long as our state and country exists" and acts on this principle to consider the society's interests in all its endeavors. As part of the "I Support Gender Equality for My Country" social responsibility project launched within Koç Group, Otokar also became a signatory of the UN Women's Empowerment Principles (WEPs), a joint initiative of UN Women and UN Global compact.

Otokar continued its efforts to serve the interests of the community in 2019, and supported the Social Responsibility Club, which built a library filled with books for the Aşağı Kaynarca Elementary School. Members of the Social Responsibility Club also came together with the Music Club members and visited nursing homes to bring a positive touch to the lives of the residents.



BIST Sustainability Index

Otokar's sustainability activities and practices have been evaluated according to the Index Selection Criteria defined by Borsa Istanbul, and the company has been included in the Borsa Istanbul (BIST) Sustainability Index for the fifth time. Otokar, with its activities aimed at creating long-term value by incorporating economic, environmental and social factors with corporate governance principles, has taken its place among the 56 companies listed in the BIST Sustainability Index.

HUMAN RESOURCES

OTOKAR AIMS TO CONTINUOUS DEVELOPMENT, MOTIVATION AND COMMITMENT OF THE QUALIFIED HUMAN RESOURCE.



All human resources activities at Otokar are shaped with the principle of developing the human resource and ensuring their loyalty to the company, and aimed at contributing to Otokar as the company renews itself, grows and maintains its competitive edge. Otokar works in line with the Human Resources policies implemented by Koç Group and adopts the philosophy of “the right person for the right job”, providing training programs to support the employees’ development and organizing events to increase employee loyalty. Otokar also considers the importance of occupational health and safety in all its business processes.

Recruitment

Otokar’s selection and placement system aims at hiring creative, innovative and qualified workforce open to newness and aligned with the company’s objectives. With recruitments carried out in this framework, the number of employees at Otokar as of 2019 year-end was 1,957.

In 2019, 123 new office employees started working at Otokar, with 69 employed as engineers, bringing the number of employees in the R&D Center to 498. Meanwhile, Otokar also recruited 193 field employees.

Training

For Otokar, growing by renewing itself is a priority and therefore the company works to continually develop the human resource. In order to enhance technical knowledge and experience, and to contribute to personal development, the in-house training requests and evaluations have been taken to the digital medium in 2019.

With the 2019 training catalogue, 14 behavioral and seven technical training programs were completed in 27 groups. While 75 percent of Otokar employees took the behavioral trainings, 63 percent of office employees participated in the professional training programs. The 98 team leaders that started training in 2018 with the principle of “Be the

1,957 EMPLOYEES

Leader of Development!" graduated in February 2019. Furthermore, 21 employees that became team leaders in 2019 were included in the Development Center Application, and their strengths and development areas were determined. On the other hand, 68 specialists that were hired in 2019 completed their "Development Journey" training, and 49 employees that were promoted to managerial positions took the "Journey to the Summit" trainings. "Benefits of Coaching in Business" training was delivered to 64 managers. 12 team leaders, who work in production and are included in the "Team Leaders Development Program," attended 5S and Kaizen trainings. After completing 121 Kaizen in classroom lessons and field applications, the participants received their training certificates. Overall, 201 Otokar employees registered for the MESS Spot Trainings organized by MESS Education Foundation and 85% attended the program. Among the managers at Otokar, 49 took the trainings organized by Koç Holding, 113 attended Koç University trainings, 46 took Harvard Business School's online programs, 19 followed Udacity trainings, 19 participated in Lead Digital trainings, and four attended Koç University's MBA Program. In addition to all of these training programs, In-Scope Vocational Qualification Certifications of Field Employees were also completed.

Support for the Vocational and Technical High School Model continued throughout the year in cooperation with the Automotive Manufacturers Association Working Group. The company also took the first step toward building an in-house trainers system with the slogan "Be Our North Star!" and initiated Proficiency Certification work for 120 field employees.

Social activities

Various events were organized for Otokar employees and their families throughout the year to encourage internal communication and increase motivation. With the addition of new clubs, the number of employee clubs reached 16 while 660 employees took part in 36 activities organized by these groups. The Otokar employees that participated in the 30th Koç Sports Festivals won first place in the bicycling and third place in the junior football categories. With the sub-brand "Otokar for Children," Otokar employees' children also began to participate in certain activities.

Occupational health and safety

Otokar promotes a high quality workplace approach and takes all necessary measures to create a healthy and safe work environment, which is a key issue that needs to be addressed in today's business world. In 2019,

522 corrective actions were taken for occupational health and safety (OHS) purposes on location and machinery basis within the factory. The OHS trainings delivered to 1,343 employees amounted to 16,116 hours. Additionally, 18 OHS Committee meetings including 12 Occupational Safety Committee meetings and six Contractor Occupational Safety Committee meetings were held.

In 2019, the practice of OHS stewardship was introduced in Otokar to raise awareness about occupational health and safety, and 276 employees were assigned as OHS stewards to support OHS-related issues within the factory. As part of the activities to raise OHS awareness, 10 Golden Rules accompanied by the slogan "How to Work with Safety" were shared with Otokar employees. Furthermore, experiential activities were carried out with experts on Otokar OGH Day.

Collaborations with universities and the Ministry of National Education

Otokar believes in the importance of contributing to the career development of young generations by sharing its knowhow and experience. With this understanding, Otokar launched the "OtoKariyer Long-Term Internship Program" for young people in 2019, and offered long-term internships for 69 students from different universities in the departments related to their respective fields. 73 percent of the candidates who interned within Koç Group later joined Otokar. Otokar also hosted eight university events, which included students from Istanbul Technical University, Middle East Technical University and Yıldız Technical University.

Otokar also collaborated with the Ministry of National Education and organized technical trips for vocational high school teachers and students. Support was extended to brand projects based on a joint protocol signed with Sakarya Chamber of Commerce and Industry, Motor Vehicles Technology Vocational and Technical Anatolian High School and Fatih Vocational and Technical Anatolian High School.

INVESTOR RELATIONS

OTOKAR WORKS CONTINUOUSLY TO INCREASE SHAREHOLDER VALUE.



Otokar strives to continually increase shareholder value by achieving sustainable growth, consistently distributing profit share, maintaining world-class investor relations and corporate governance practices. The relations between Otokar and shareholders are carried out under the responsibility of the Investor Relations Department, which cooperates with relevant divisions. The department is responsible for providing shareholders and potential investors with information, except for confidential information and trade secrets, and in a manner not to lead to information disparities, and for establishing a two-way communication between the company executives and shareholders and potential investors.

In 2019, the department attended 46 investor meetings, including 19 abroad, as well as four conferences and roadshows, including three international events. The department continued to provide information through the

year by responding to written and verbal questions. Furthermore, the website, presentations and all other communication tools were regularly updated and shared with shareholders. The Investor Relations Department's report on its 2019 activities was submitted to the Board of Directors on 21 February 2019.

General assembly

The company's Ordinary General Assembly will convene to review 2019 activities on Monday, 16 March 2020 at 10.00 am at Divan İstanbul Hotel, Asker Ocağı Cad. No. 1 Elmadağ, Şişli-İstanbul. The Ordinary General Assembly Agenda, Board of Directors' Annual Report including Independent Auditor's Report, Corporate Governance Compliance Report and Profit Distribution Proposal, as well as the agenda items and the Information Documents that contain necessary disclosures for compliance with Capital Markets Board regulations will be made available for the shareholders to review at the company's Head Office

9.40 CORPORATE GOVERNANCE RATING SCORE

and on the corporate website (www.otokar.com), Public Disclosure Platform (KAP), and the Central Depository Agency's (MKG) e-Management, e-Company and e-General Assembly systems three weeks prior to the Ordinary General Assembly meeting.

Corporate governance

Corporate Governance Rating is an indication that the company complies with corporate governance principles to a great extent and will continue to improve its efforts for further compliance. As announced to the public on 21 March 2019 with a material disclosure, Otokar's Corporate Governance Rating measured by SAHA Kurumsal Yönetim ve Derecelendirme Hizmetleri A.Ş. (SAHA) rose to 94.02 (9.40 out of 10).

Company shares

Otokar Otomotiv ve Savunma Sanayi A.Ş. shares have been traded on Borsa İstanbul since 24 April 1995 with ticker symbol "OTKAR" while the company stocks are also included in the BIST 100, Corporate Governance and Sustainability Indexes. As a result of Otokar's focus on sustainability and based on the evaluations by BIST, the company has been included in the BIST Sustainability Index for the fifth consecutive term. Otokar shares are included in the following indexes: BIST 100, BIST Corporate Governance, BIST Sustainability, BIST Dividends, BIST Stars, BIST All, BIST Industrial, BIST Metal Equipment Machinery, BIST 100S, and BIST 100-30. In 2019, BIST 100 rose 25%, while Otokar shares were traded at lowest TL 83.21 and highest TL 161.10, seeing 85% increase throughout the year. The company's market value on 31 December 2019 was TL 3.8 billion.

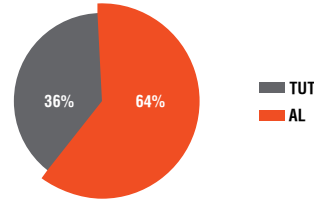
Analysts' recommendations

Among the 11 investment firms that report actively on Otokar, 7 have recommended BUY and 4 HOLD, based on their latest reports issued in 2019.

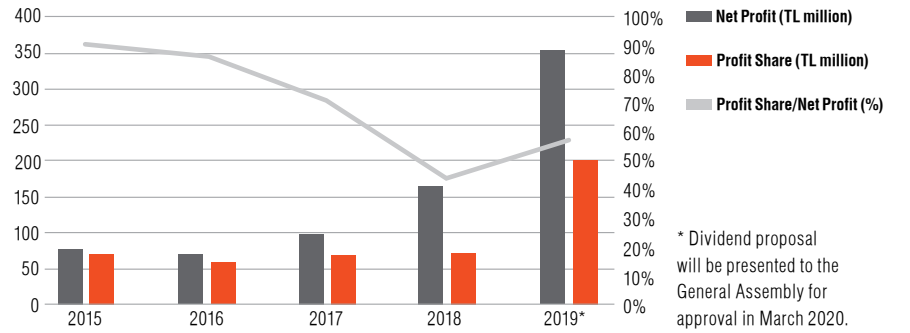
Profit share distribution

In 2019, Otokar paid TL 72 million in gross dividends for 2018 profits. The company's profit distribution policy is available on the corporate website and page 30 of this report. 2019 Profit Share Distribution proposal can be found on page 31 of this Annual Report.

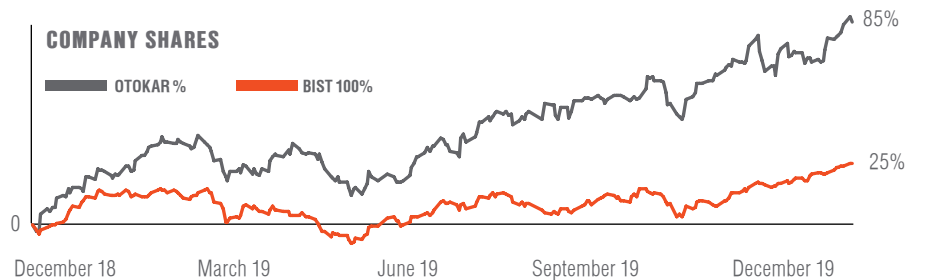
ANALYSTS' RECOMMENDATIONS



PROFIT SHARE DISTRIBUTION



CORPORATE GOVERNANCE RATING SCORE		Weight	Score
Shareholders		25%	95.41
Public Disclosure and Transparency		25%	93.94
Stakeholders		15%	97.13
Board of Directors		35%	91.76
Total		100%	94.02



FUTURE

OTOKAR'S PLANS FOR 2020 INCLUDE MAINTAINING ITS LEADERSHIP IN THE DOMESTIC MARKET, CONTINUING TO FOCUS ON EXPORTS, AND ITS SUSTAINABILITY AND DIGITAL TRANSFORMATION EFFORTS.



Otokar, which exports products with owned intellectual rights to more than 60 countries on five continents, plans to maintain its leading position in the domestic market while also focusing on exports and working toward becoming a global company in 2020. In the bus segment, in addition to growing its vehicle park in Europe, Otokar also aims at maintaining its market leadership in Turkey. In the defense industry, Otokar's future plans and goals concentrate on seizing opportunities in product exports as well as technology transfers and joint production with local partners in foreign markets.

Otokar Central Asia

In line with its goal of becoming a global brand, Otokar added Otokar Central Asia, a company

established in Kazakhstan, to its foreign subsidiaries in 2019, to ensure proximity to its users and to respond to user expectations and requirements more rapidly. With the new company based in Kazakhstan, Otokar aims to be closer to its existing and potential clients in Central Asia and to increase sales in the region. Otokar's military and commercial products are already used actively in Kazakhstan and Central Asia; and the new company is expected to bring a variety of cooperation opportunities such as joint product development, local partnerships, local production and technology transfer.

Alternative fueled vehicles

As a company that follows the latest technologies in the automotive

and defense industries closely and integrates new technologies into its products in line with future expectations of its clients, Otokar has long been working on developing alternative fueled vehicles. For this purpose, Otokar plans to continue developing and testing the 12-meter electric city bus and an electric armored vehicle. The electric Akrep IIe in particular will provide Otokar with a new experience in autonomous vehicles of the future.

Sustainability and digital transformation

Otokar's work on sustainability and digital transformation will also continue as the company strives to offer benefits for its employees, users, clients, stakeholders, and the society at large.

EMPOWERED BY OUR PROUD
ACHIEVEMENTS, WE NEVER LOST
SIGHT OF OUR GOALS.



CORPORATE GOVERNANCE

LEGAL DISCLOSURES

Reporting Period:

01.01.2019 - 31.12.2019

Company Title:

Otokar Otomotiv ve Savunma Sanayi A.Ş.

Trade Registry / Number:

İstanbul / 83467

Shareholding Structure and Capital Distribution:

Registered Capital Ceiling: 100,000,000 TL

Paid-in Capital: 24,000,000 TL

Shareholder	Share amount (TL)	Percentage (%)
Koç Holding A.Ş.	10,722,749.81	44.68
Ünver Holding A.Ş.	5,954,943.83	24.81
Other	7,322,306.36	30.51
Total	24,000,000.00	100.00%

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

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

Privileged Shares and Voting Rights of Shares:

There are no privileges in the company's Articles of Association pertaining to the exercise of voting rights.

Stock Information:

BIST Ticker Symbol : OTKAR

Reuters Ticker Symbol : OTKAR.IS

Bloomberg Ticker Symbol : OTKAR.TI

IPO Date : 24.04.1995

Headquarters Address:

Aydınevler Mahallesi
Saygı Caddesi No. 58
34854 Maltepe-İstanbul

Factory Address:

Atatürk Caddesi No. 6
54580 Arifiye-Sakarya

Phone:

+90 216 489 29 50

Website:

www.otokar.com

CORPORATE GOVERNANCE

LEGAL DISCLOSURES

Organizational Changes within the Year:

Mr.Ali Rıza Alptekin who worked as an Assistant General Manager – Production and Procurement at Otokar between 03.04.2006 – 20.06.2019 and who has been working as an Assistant General Manager – Commercial Vehicles since 21.06.2019, resigned from his position as of 15.11.2019.

Legal Actions Taken Against the Company:

There was no material legal action taken against the company.

Legislative Changes that Could Materially Affect the Company's Activities:

There were no legislation changes that could materially affect the company's activities significantly.

Conflicts of Interest with Corporations from which the Company Procures Services including Investment Consultancy, Rating and such, and the Measures Taken to Prevent such Conflicts of Interest:

The company does not procure any investment consultancy services. A Corporate Governance Rating service is procured, however there was no conflict of interest with the company providing this service.

Private and Public Audits in 2019:

There were no private or public audits completed in 2019.

Administrative and Legal Sanctions Imposed on the Company or its Board Members due to Noncompliance with Regulations:

None.

Implementation of the Ordinary General Assembly Resolutions:

The resolutions reached at the Ordinary General Assembly on 18 March 2019 have been implemented.

Extraordinary General Assembly Meetings Held During the Year:

None.

Information on the Permission Granted to Shareholders who have Control over the Management, to Board Members who Hold Shares in the Company, to Senior Managers, and Their Spouses and Relatives Related by Blood or Affinity up to the Second Degree, to Conduct Transactions or Compete with the Company and its Affiliates that could Lead to Conflicts of Interest:

None.

CORPORATE GOVERNANCE

2019 REPORT ON AFFILIATED COMPANIES

The report, which explains the company's relations with Majority Shareholders in accordance with article 199 of the Turkish Commercial Code, was approved by the Board of Directors on 19 February 2020. The conclusion of the report is quoted below:

"Pursuant to Article 199 of the Turkish Commercial Code No. 6102, the Board of Directors of Otokar Otomotiv ve Savunma Sanayi A.Ş. is required to prepare a report within the first three months of the calendar year concerning the company's transactions with its majority shareholder and its subsidiaries in the previous year; and to include the conclusions of this report in the annual report. The details of the transactions between Otokar Otomotiv ve Savunma Sanayi A.Ş. and the related parties are included in footnote No. 27 of the financial statements."

The following was expressed in the report, which was prepared by Otokar Otomotiv ve Savunma Sanayi A.Ş.'s Board of Directors on 19 February 2020: "The Board of Directors of Otokar Otomotiv ve Savunma Sanayi A.Ş. reached the conclusion that, in all transactions conducted in 2019 between Otokar Otomotiv ve Savunma Sanayi A.Ş. and its majority shareholder, as well as its subsidiaries, the transactions were either completed or the required measures were taken, and, in cases where the company refrained from taking the required measures, due consideration was provided based on all facts and conditions known to the company's Board at the time, and, in this context, that there were no measures taken, or which were refrained from, that could harm the company, and, accordingly, there were no transactions or measures that require balancing."

CORPORATE GOVERNANCE

CORPORATE GOVERNANCE IMPLEMENTATION

CORPORATE GOVERNANCE PRACTICES

Otokar Otomotiv ve Savunma Sanayi A.Ş. (company) acts with utmost diligence to comply with the “Capital Markets Board Corporate Governance Principles” promulgated by the Capital Markets Board (CMB).

The Corporate Governance related activities in 2019 were executed in compliance with the Capital Markets Law that includes regulations about CMB's corporate governance principles and the communiqués promulgated pursuant to this Law.

At the 2019 Ordinary General Assembly Meeting, the Board of Directors and its Committees were formed in line with the provisions of the Corporate Governance Communiqué. Ahead of the upcoming general assembly meeting, Independent Board Members were nominated and announced, and the entire process was executed in line with the regulations. The Board Committees have been functioning effectively. The information note that must accompany the disclosure document to be submitted to the General Assembly includes such standard documents as those indicating privileged shares, voting rights and organizational changes, as well as the résumés of Board of Directors membership candidates, the remuneration policy for Board Members and other information that is required to be disclosed, all of which were made available for the investors three weeks prior to the general assembly meeting. Furthermore, the company's corporate website and annual report were reviewed and revisions required to comply with the principles were made.

The company will continue to work toward full compliance with the principles based on the developments in legislation and general practice.

As an indication that the company has significantly adapted to corporate governance principles and that its efforts toward full compliance with corporate governance principles will increase and continue, the company's corporate governance rating has been increased to 94.02 (9.40 over 10) by SAHA Kurumsal Yönetim ve Kredi Derecelendirme Hizmetleri A.Ş., as announced in our material disclosure on 21 March 2019. The Corporate Governance Rating Report can be found on the corporate website at www.otokar.com.

DECLARATION OF COMPLIANCE WITH THE PRINCIPLES OF CORPORATE GOVERNANCE

Otokar adopts the “Corporate Governance Principles” first published by the Capital Markets Board (“CMB”) in July 2003, and implements them to a great extent. Compliance with the mandatory principles of the Corporate Governance Communiqué II-17.1 was fully accomplished in 2019, while the Company has also complied with the majority of the non-mandatory principles. While full compliance with the non-mandatory principles is not part of the objectives, due to the challenges encountered in the implementation of some principles, on-going discussions in Turkey and internationally regarding compliance with certain principles, and the failure of the current market and corporate structure to comply with such principles in proper fashion, full compliance has not been achieved yet. We are working on the principles not yet implemented and we plan to apply them once the administrative, legal and technical infrastructure for the effective governance of the company has been completed. The following sections detail, for each principle, the comprehensive efforts being made in the company within the framework of corporate governance principles, the principles with which compliance has not yet been achieved and, if any, conflicts of interest that stem from them.

Full compliance with a number of non-mandatory Corporate Governance Principles listed below has not been achieved for the aforementioned reasons, and detailed information on this matter is provided in the relevant sections that follow. The company has not been subjected to any conflicts of interest due to non-compliance with the non-mandatory principles.

- Regarding principle 1.5.2., minority rights for shareholders holding less than one twentieth of the capital have not been defined in the articles of association, and the rights have been defined within the frame of general provisions in the legislation.
- Regarding principle 4.3.9., while there is no policy in place, female member ratio in the Board of Directors is currently 12.5 percent.
- Regarding principle 4.4.5., the company has in place processes regarding the conduct of the Board meetings that have been consistently observed for many years and a specifically written internal regulation is not available.
- Regarding principle 4.5.5., committee appointments are decided, taking into consideration Board Members' expertise and experience, and in accordance with relevant regulations, some Board Members serve on more than one committee. However, the said members facilitate communication and increase the opportunities for cooperation between committees handling related subjects.
- Regarding principle 4.6.1., a specific board assessment has not been conducted.
- Regarding principle 4.6.5., remunerations provided to the board member and executive with administrative responsibilities are provided in the notes to the financial statements and disclosed to the public as a total figure.

CORPORATE GOVERNANCE

CORPORATE GOVERNANCE IMPLEMENTATION

The Corporate Governance Compliance Report (CGCR) and Corporate Governance Information Note (CGIN), drawn up according to the new reporting formats pursuant to CMB resolution no. 2/49 dated 10.01.2019, and approved by the Board of Directors, are presented as an appendix to this annual report (pages 154-165) and the relevant documents can also be accessed in the Company's corporate governance page on the Public Disclosure Platform (<https://www.kap.org.tr/cgif/4028e4a140ee35c70140ee4316b3001d>)

Investor Relations Department

At Otokar Otomotiv ve Savunma Sanayi A.Ş., relations with the shareholders are handled by the Investor Relations Department, which works in cooperation with relevant departments. The department is responsible for providing information to the shareholders and prospective investors, assuring that no confidential information or trade secrets are disclosed, and without causing any information disparity while ensuring two-way communication between the company's management and the shareholders.

In order to fulfill the duties stipulated in article 11 of the Corporate Governance Communiqué II-17.1, the Board of Directors resolved on 27 June 2014 to appoint İrfan Özcan, Financial Affairs Director, Doğan Seçkinler, Finance, Risk Management and Investor Relations Director, and Hatice Gülşah Mutlu, Investor Relations and Corporate Governance Manager, led by Hüseyin Odabaş, Assistant General Manager – Financial Affairs to serve on the Corporate Governance Committee. Hüseyin Odabaş was appointed as Member of the Corporate Governance Committee.

Investor Relations Department managers are listed below:

Hüseyin Odabaş (Assistant General Manager - Finance)

İrfan Özcan (Financial Affairs Director)

Doğan Seçkinler (Finance, Risk Management and Investor Relations Director)

Hatice Gülşah Mutlu (Investor Relations and Corporate Governance Manager)

Investor Relations Department Managers Doğan Seçkinler and Hatice Gülşah Mutlu are holders of Capital Market Activities Advanced Level License (Level 3) and Corporate Governance Rating Specialists License.

In 2019, the Investor Relations Department held 46 one-to-one meetings, 19 of which were abroad, and 62 teleconferences with analysts from stockbrokerage companies, and local and foreign investors. The department attended 4 investor conferences and roadshows, including 3 abroad. To ensure that investors can keep track of the latest information, the company's website, investor presentations and investor newsletters are regularly updated. Material disclosures that may be important for the investors are published on the corporate website in Turkish and English after they are announced on the Public Disclosure Platform (KAP). Information of the last five years is available on the corporate website in Turkish and English languages. Numerous requests for information were submitted to the Investor Relations Department by analysts and investors regarding the company's financial reports and activities, and these were replied in line with publicly available information in a manner to avoid discrepancies.

Obligations required by legislation, such as holding the General Assembly meetings in accordance with applicable regulations, articles of association and company bylaws, and preparing Annual Reports and other documents for the shareholders to benefit from, are the responsibility of the Investor Relations Department. The general assembly meeting held in 2019, call to meeting and records related to the meeting were performed in compliance with applicable regulations, articles of association and other relevant company bylaws.

All kinds of public disclosure activities as required by the regulations, such as financial reporting and disclosing of special situations to the public, are carried out by Investor Relations Department. In 2019, 39 material disclosures were announced, and those that particularly concern the investors were published on the Public Disclosure Platform (KAP) and the corporate website along with their English translations.

The Investor Relations Department submits a report to the Corporate Governance Committee at least once a year regarding its activities to be communicated to the Board of Directors. The said report on the activities of 2019 was evaluated by the Corporate Governance Committee and the Board of Directors on 20 February 2020.

The company takes utmost care to ensure compliance with legislation in satisfying investors' demands. In 2019, no complaints, or administrative or legal pursuit of exercising shareholders' rights in the company have been received to the best of our knowledge.

CORPORATE GOVERNANCE

CORPORATE GOVERNANCE IMPLEMENTATION

BOARD OF DIRECTORS

The Structure and Formation of the Board of Directors

The company is managed by a Board of Directors formed by minimum five (5) members who are elected by the General Assembly. In addition to electing the Board members, the General Assembly also determines the number of members to serve on the Board. Without prejudice to the requirements imposed by the Capital Markets Board Corporate Governance Principles for independent members, the General Assembly has the right to replace Board members at any time if deemed necessary pursuant to Article 364 of the Turkish Commercial Code.

In the event that a Board membership is vacated for any reason such as when an independent member's status is no longer independent, or he/she resigns or becomes unable to perform his/her roles, the Board of Directors will nominate an individual that meets the legal criteria in accordance with the applicable provisions of Turkish Commercial Code and the CMB regulations, and submit the nomination to the General Assembly for approval in the next meeting.

The duties of the Chairman of the Board and the General Manager are performed by separate individuals. Board Members are encouraged to spare the required time to fulfil their obligations toward the company while there are no rules restricting them from assuming other duties outside the company. Considering that independent members, in particular, may contribute significantly to the Board with their business experience and industry knowledge, no such restrictions have been deemed necessary. The résumé of each Board Member and their other duties outside the company are shared with the shareholders prior to the Annual General Assembly Meeting.

Duties of the Nomination Committee and the Remuneration Committee in the company are carried out by the Corporate Governance Committee. Three candidates were nominated for independent membership in 2019, and the declarations of independence and résumés of these individuals were evaluated by the Corporate Governance Committee and the Board of Directors on 13 February 2019, determining them to be independent member candidates. All independent board members submitted their declarations of independence to the Corporate Governance Committee, and in the 2019 reporting period, no situation that would contravene their independence occurred.

The company agrees that achieving diversity in the Board of Directors in terms of knowledge, experience and perspectives contributes positively to its operations and enhances the effective functioning of the Board of Directors. While there is no policy in place, female member ratio in the Board of Directors is currently 12.5 percent.

The table below provides an overview of the current Board Members, elected at the General Assembly on 18 March 2019 to serve until the next General Assembly Meeting to review the 2019 activities, who are all non-executive except for General Manager Ahmet Serdar GÖRGÜÇ as defined in the CMB Corporate Governance Principles.

Detailed résumés of the Board members can be found on the corporate website and in pages 28-29 of the Annual Report.

Name & Lastname	Title	Independence Status	First Election Date to the Board of Directors	Tenure at Office	Assignments in BoD & Committees	Duties Outside Company
Yıldırım Ali KOÇ	Chairman	Not Independent	26.03.2015	1 Year		Koç Holding A.Ş. - Vice Chairman; Board Member and Committee Member in Koç Group Companies
Levent ÇAKIROĞLU	Vice Chairman	Not Independent	26.03.2015	1 Year	Corporate Governance Committee Member	Koç Holding A.Ş. CEO; Board Member in Koç Group Companies
Selin Ayla ÜNVER	Member	Not Independent	22.10.2018	1 Year		Ünver Holding A.Ş. - Chairwoman
İsmail Cenk ÇİMEN	Member	Not Independent	18.03.2019	1 Year	Risk Management Committee Member	Chairman, Board Member and Committee Member in Koç Holding Companies
Ahmet Serdar GÖRGÜÇ	Member - General Manager	Not Independent	20.04.2006	1 Year		
Ahmet Nezih OLCAY	Member	Independent	28.03.2014	1 Year	Audit Committee Chairman; Corporate Governance Committee Chairman	
Ali İhsan KAMANLI	Member	Independent	15.03.2018	1 Year	Audit Committee Member	
Kenan GÜVEN	Member	Independent	15.03.2018	1 Year	Risk Management Committee Chairman	Turkish Heart Foundation - Chairman

CORPORATE GOVERNANCE

CORPORATE GOVERNANCE IMPLEMENTATION

Operating Principles of the Board of Directors

The powers and responsibilities of the Members of the Board of Directors are specified in the Articles of Association. Distribution of duties among Board Members and their duties and powers are explained in the annual report.

The subject or agenda of the Board of Directors Resolutions is determined according to the matters, for which the company's Articles of Association explicitly require a Board of Directors resolution, or the issues that arise as reported to the company's Senior Management and Board Members by the relevant departments. Otherwise, a meeting agenda may also be drawn up when a Board Member notifies the upper management of a specific matter that requires the Board's resolution.

The Board convenes for meetings when company business so requires. Although there is no dedicated secretariat established to facilitate communication, the Investor Relations and Corporate Governance Department under the Finance, Risk Management and Investor Relations Directorate prepares the meeting agenda, records the resolutions, and monitors the outcome of resolutions.

In accordance with the Turkish Commercial Code and the relevant articles of the company's Articles of Association, the Board of Directors convenes physically when the company business calls for it, and when necessary, resolutions can be reached by passing around the resolutions pursuant to article 390, paragraph 4 of the Turkish Commercial Code Article. The Board of Directors drew up 20 resolutions in 2019. Minimum two of the independent members have been made sure to attend the meetings.

Different views expressed during the Board meetings as well as the reasons for casting opposing votes are recorded in the minutes of the resolutions. However, since no such opposing or discordant views were recently expressed, no disclosures were made to the public in this regard.

Board Members and senior executives of the company are covered by an "Executive Responsibility Insurance" policy.

While overseeing the company's activities, the Board of Directors assesses the potential for any conflicts of interests, and if such potential exists the board evaluates its repercussions for the company, and reaches necessary resolutions to act in the best interest of the company. In addition to ensuring that provisions are complied with in related party transactions, Board of Directors also assesses potential risks for misconduct and diligently addresses the transactions of related parties.

The Committees formed by the Board of Directors

The company's Board of Directors has formed several committees in order to effectively fulfil its duties and responsibilities, and these committees carry out their activities in accordance with specified procedures. The Committees reach certain decisions after independently conducting a number of studies before presenting these in the form of proposals for the Board's consideration, with the Board then reaching the final decision.

The Committees' operating principles and fields of activity are determined by the Board of Directors, and disclosed to the public. Following the Board of Directors resolution dated 1 April 2019, the working principles of the committees operating under the Board of Directors were reviewed, revised and published on the website.

The heads of the committees are appointed from among the Independent Board Members, while all the members of the Audit Committee consist of Independent Board Members.

The Committees document all of their activities and keep records. The Committees hold meetings as frequently as deemed necessary for working effectively and as defined by their operating principles, and they report the information and results of their work to the Board of Directors.

Members who serve on multiple one committees facilitate communication and increase opportunities for cooperation between committees handling related subjects. The Board of Directors believes that it has obtained the expected benefit from the committee's work.

Operating principles of the committees are available on the corporate website.

CORPORATE GOVERNANCE

CORPORATE GOVERNANCE IMPLEMENTATION

Audit Committee

The Audit Committee, established pursuant to the Board of Directors' resolution dated 29 April 2003, fulfils the duties of audit committees set out in the Capital Market Legislation.

The Board of Directors resolved on 1 April 2019 that the Audit Committee would be composed of 2 independent members, with Ahmet Nezih Olcay appointed as Chairman, and Ali İhsan Kamanlı as Member of the Committee.

In 2019, the Audit Committee submitted to the Board of Directors a written report of its views on the choice of independent auditor, its assessments of annual and interim financial statements to be disclosed to the public in terms of their truth, accuracy, and compliance with the accounting principles adopted by the company as well as the decisions made during Committee meetings held within the year. The Audit Committee convened 6 times in 2019.

Corporate Governance Committee

The Corporate Governance Committee was established following the Board of Directors resolution on 25 May 2012 to monitor the company's compliance with the Corporate Governance Principles, to examine the reasons for non-compliance with the Principles, which are not yet implemented, and propose improvement actions, to evaluate corporate governance practices and the Corporate Governance Compliance Report, and to oversee the work of the investor relations department. The Board of Directors resolved on 1 April 2019 that the Corporate Governance Committee be composed of three members and that Ahmet Nezih Olcay, who is an Independent Member, be appointed as the Chairman, and Levent Çakıroğlu ve Hüseyin Odabaş as Members of the Committee, and to also serve as the Nomination Committee and the Remuneration Committee in accordance with the Communiqué.

The Corporate Governance Committee reviewed the company's corporate governance practices in 2019 and the Corporate Governance Compliance Report (CGCR) and Corporate Governance Information Note (CGIN), drawn up according to the new reporting formats pursuant to CMB resolution no. 2/49 dated 10.01.2019 and also informed the Board of Directors on the activities of the Investor Relations Department. The committee, which also undertakes the duties of the Nomination Committee and Remuneration Committee, worked on various topics within its purview such as determining the Independent Board Member Nominees and the benefits provided to the Board Members and Senior Executives. The Corporate Governance Committee convened 8 times in 2019.

Risk Management Committee

The Board of Directors resolved on 11 July 2012 to establish the Risk Management Committee, which would work on early detection of risks that could pose a threat to the company's presence, development and continuity, and on applying necessary measures to mitigate these risks in order to ensure compliance with article 378 of Law 6102 of the Turkish Commercial Code, which entered force in July 2012. The Board of Directors resolved on 1 April 2019 that the Committee would be composed of two members, with Kenan Güven, who is an Independent Member, as the Chairman, and İsmail Cenk Çimen as a Member of the Committee. The committee convenes at least six times a year.

The Risk Management Committee submitted its written report to the Board of Directors to inform them about their assessment of the Risk Report to be included in the annual report and their opinions on the risk factors, as well as the decisions reached in the Committee meetings during the year. The Risk Management Committee convened 7 times in 2019. The report presented by PwC Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş. on 5 February 2020 stated that Otokar's early risk detection system and the Risk Management Committee are adequate in all material aspects within the framework of article 378 of the TCC.

CORPORATE GOVERNANCE

MEMBERS OF THE BOARD OF DIRECTORS AND MEMBERS OF THE COMMITTEES

Board of Directors	Title	Term Start	Term End
Yıldırım Ali Koç	Chairman	18/03/19	16/03/20
Levent Çakıroğlu	Vice Chairman	18/03/19	16/03/20
Selin Ayla Ünver	Member	18/03/19	16/03/20
İsmail Cenk Çimen	Member	18/03/19	16/03/20
Ahmet Serdar Görgüç	Member - General Manager	18/03/19	16/03/20
Ahmet Nezih Olcay	Independent Member	18/03/19	16/03/20
Ali İhsan Kamanlı	Independent Member	18/03/19	16/03/20
Kenan Güven	Independent Member	18/03/19	16/03/20
Audit Committee	Title	Term Start	Term End
Ahmet Nezih Olcay	Chairman	18/03/19	16/03/20
Ali İhsan Kamanlı	Member	18/03/19	16/03/20
Corporate Governance Committee	Title	Term Start	Term End
Ahmet Nezih Olcay	Chairman	18/03/19	16/03/20
Levent Çakıroğlu	Member	18/03/19	16/03/20
Hüseyin Odabaş	Member	18/03/19	16/03/20
Risk Management Committee	Title	Term Start	Term End
Kenan Güven	Chairman	18/03/19	16/03/20
İsmail Cenk Çimen	Member	18/03/19	16/03/20

- 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.
- The principles of remuneration of Board of Directors and senior executives have been put in writing, and the “Remuneration Policy” prepared for this purpose has been included in annual reports and the company’s corporate website (www.otokar.com).
- The compensations provided to senior executives in 2019 have been included in Note 27 of the financial statements for the 2019 fiscal year.
- Detailed information on committees and their operating principles have been provided in the Corporate Governance Principles Compliance Report included on pages 62-63 and the company’s corporate website (www.otokar.com).
- Pursuant to Board Resolution no. 2020/08, the Board of Directors has been provided information on the activities of the Board Committees in 2019.
- In 2019, the Audit Committee convened 6 times, the Corporate Governance Committee 8, and the Risk Management Committee 7 times, respectively. The meetings were attended by all committee members.
- The résumés of the Board Members are provided on pages 28-29.

CORPORATE GOVERNANCE

SENIOR MANAGEMENT



Ahmet Serdar Görgüç
General Manager

Ahmet Serdar Görgüç graduated from the Department of Mechanical Engineering at Boğaziçi University in 1981 and later earned a master's degree in Business Administration from Istanbul University in 1983. Mr. Görgüç started his professional career in 1982, joining Koç Group as a Project Engineer in the Automotive Group. In 1985, he became the Department Manager. The same year, he was appointed Advanced Projects Design Manager at Otokar Otomotiv ve Savunma Sanayi A.Ş., where he served in the position until 1988. Mr. Görgüç later served as Product Engineering Manager (1989-1995), and as Assistant General Manager-Engineering (1995-2005). He is the General Manager of Otokar since 2006.



Hüseyin Odabaş
Assistant General Manager - Finance

Hüseyin Odabaş graduated from the Faculty of Business Administration at Istanbul University in 1985. Mr. Odabaş began his professional career at Koç Holding in 1989 as a Financial Management Trainee and later served as an Audit Expert (1992-1994). After working at Ormak, a Koç Group company, as Accounting Manager (1994-1996), Hüseyin Odabaş joined Otokar Otomotiv ve Savunma Sanayi A.Ş. as Accounting Manager (1996-2003). Mr. Odabaş serves as Assistant General Manager-Finance since 2003.



Uğur Sedef Vehbi
Assistant General Manager - Military Vehicles Sales and Marketing

Uğur Sedef Vehbi holds a bachelor's degree in Economics from Hacettepe University (1990). She started her professional career in the Commercial Finance department at Turkish Bank (UK) Ltd. (1993). After working as Business Development Officer at Ram Dış Ticaret A.Ş. (1997-2002), she joined Otokar as Business Development Coordinator and later took the roles of Export Manager, Military Vehicles Export Manager, and Military Vehicles Export Director, respectively. Ms. Vehbi serves as Assistant General Manager-Military Vehicles Sales and Marketing at Otokar since 2018.



Hasan Basri Akgül
Assistant General Manager - Domestic Sales & Marketing

Hasan Basri Akgül graduated from the Department of Mechanical Engineering at Istanbul Technical University (1984). He earned his master's degree in the same discipline from Boğaziçi University (1988). Mr. Akgül began his professional career at Tofaş in 1990 as an Assistant Regional Sales Manager and went on to serve as Regional Sales Manager (1990-1992), Logistics Manager (1993-1997), and Sales Coordinator (1998). Mr. Akgül has been with Otokar since 1998, and currently serves as Assistant General Manager-Domestic Sales & Marketing.

Mr. Ali Rıza Alptekin who worked as an Assistant General Manager – Production and Procurement at Otokar between 03.04.2006 – 20.06.2019 and who has been working as an Assistant General Manager – Commercial Vehicles since 21.06.2019, resigned from his position as of 15.11.2019.

CORPORATE GOVERNANCE

RISK MANAGEMENT AND THE RISK MANAGEMENT COMMITTEE'S ACTIVITIES

a. Risk Management

The risk management policy at Otokar is led by the General Manager under the supervision of the Board of Directors and carried out in coordination with all executives, spread and supported across all levels of the organization, and implemented in line with the company's strategies with the aim of foreseeing and monitoring any potential risks that may prevent the company from reaching its goals, and drawing up action plans to address such risks.

The Risk Management Committee has been established to identify and assess any strategic, operational, financial, legal and other risks that may undermine the company's presence, growth and continuity, calculate the impact and probability of such risks, report and manage these risks according to the company's risk profile, and present suggestions to the Board of Directors concerning the implementation of the necessary measures against such risks, taking them into consideration in decision making processes, and establishing and integrating effective internal control mechanisms.

In addition to its own risk policy, Otokar also acts in line with the risk policy implemented by the Koç Group.

Potential future risks related to sales, efficiency, revenue generating capabilities, profitability, debt/equity ratio and similar topics are also assessed and managed as part of our risk policy.

Otokar monitors its risks as financial risks, strategic risks, operational risks and legal risks.

Financial Risks

Major financial risks include foreign currency risks, liquidity risks, credit risks, interest risks and receivables risks.

Foreign Currency Risk: Managed using derivative transactions within the limits determined by the Group by following updated foreign currency positions to avoid exchange rate risks.

Liquidity Risk: Managed in order to meet cash demands by maintaining the ratio of cash and cash equivalents to total short term liabilities at the targeted levels.

Credit Risk: Kept under control with cash management and liquidity risk monitoring. As part of the company's policy, no mortgage, pledge or such additional collateral is provided in loan utilization.

Interest Risk: Short term and long term borrowing is carried out in line with the company's policies. A policy of utilizing loans with flexible maturities has been implemented.

Receivables Risk: Receivables are followed based on collateral limits. The conformity of debt-receivable days with anticipated days in budget is monitored closely.

Strategic Risks

Strategic risks are structural risks that may prevent the company from reaching its short, medium or long term strategies as one of the most important factors in preparing for the future. These risks are related to products, customers, competitors, the brand, the market, industry, management and managing transformation.

Potential risks and opportunities are monitored in strategic risk management by considering budget and strategic plans that serve as indicators of future plans, macroeconomic developments, and the market and industry dynamics.

CORPORATE GOVERNANCE

RISK MANAGEMENT AND THE RISK MANAGEMENT COMMITTEE'S ACTIVITIES

Operational Risks

Operational risks are composed of losses such as those from business processes that may have impact on key operations, employees and systems, which are affected by internal systems and processes, and external factors. Risk areas such as sales, product development, capacity, information management, technology, brand management, earthquake and fire are included in this category.

Insurance for mitigating operational risks is secured through a central procurement system.

Legal Risks

Legal risks and opportunities are monitored by the management and legal counsel for compliance with applicable laws, regulations and standards. Legal Conformity (HUY) Test, Competition Compliance Program, Compliance with the Law on Protection of Personal Data (KVK), and Contract Supervision System are applied in line with Group practices.

b. Risk Management Committee's Activities

On 11 July 2012, the Board of Directors Meeting of Otokar Otomotiv ve Savunma Sanayi A.Ş. resolved to establish the Risk Management Committee, which would work on early detection of risks that could pose a threat to the company's survival, development and continuity, and on applying necessary measures to mitigate these risks in order to ensure compliance with article 378 of Law 6102 of the Turkish Commercial Code, which entered into force on 1 July 2012. The Committee is chaired by Independent Board Member, Kenan Güven, while the other Member of the Committee is Board Member İsmail Cenk Çimen.

The operating principles of the Committee, which holds at least six meetings each year, are announced on the company's website.

The Committee, which convened seven times in 2019, evaluates the company's principles for the Risk Management System and Risk Reporting, examines Risk Reports prepared periodically and expresses views on measures that are deemed necessary to address areas where there is non-compliance with the limits stipulated in the Risk Management System Reporting activities and the Committee's assessments are recorded as minutes of the meeting, and duly presented to the Board of Directors.

CORPORATE GOVERNANCE

INTERNAL CONTROL SYSTEM AND INTERNAL AUDITS

The Internal Control System established within the company aims to maintain objectivity and independence in all operations, add value to the company, ensure that the company's operations are in compliance with the strategies and goals, as well as regulations, contribute to the realization of the company's key objectives, principles and targets, and improve effectiveness and productivity.

The Internal Control System is composed of standard descriptions, job definitions, authorization processes, policies and written procedures defined in the workflows.

The Internal Control System is periodically reviewed by the Internal Audit Department for effectiveness. Within the organizational structure, the Internal Audit Department reports administratively to the General Manager to ensure independency of its activities, and functionally to the Committee Responsible for the Audit.

Financial tables and statements are inspected by the Audit Committee and the Internal Audit Department, and also audited by the independent audit company PwC Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş.

The Audit Committee was briefed about the Internal Control System and Internal Audit activities through the "2019 Otokar Audit Activities" report prepared by the Internal Audit Department.

Otokar Otomotiv ve Savunma Sanayi A.Ş. did not undergo any private or public inspections that were completed in 2019.

CORPORATE GOVERNANCE

REVIEW OF THE BOARD COMMITTEES AND THEIR EFFECTIVENESS

All of the Board Committees have fulfilled the duties and obligations mandated by the Corporate Governance Principles and their own regulations, and convened according to the annual meeting schedules in 2019. Information on the Committees' activities and the outcomes of the meetings held throughout the year have been reported to the Board of Directors.

The Board of Directors has formed the opinion that the Board Committees have delivered the benefits expected of their activities.

Information on the Board Committees and their operating principles are available on the corporate website:
<https://www.otokar.com/en-us/investorrelations/corporategovernance/Pages/committees.aspx>

Detailed information on the structure and activities of the Committees are provided in the "Corporate Governance Implementation" section of this report (see pages 62-63).

CORPORATE GOVERNANCE

RESPONSIBILITY STATEMENT FOR FINANCIAL REPORTS

RESPONSIBILITY STATEMENT PURSUANT TO CAPITAL MARKET BOARD COMMUNIQUÉ II-14.1 ARTICLE 9 ON PRINCIPLES OF FINANCIAL REPORTING IN CAPITAL MARKETS

BOARD OF DIRECTORS' RESOLUTION ON APPROVAL OF FINANCIAL STATEMENTS

RESOLUTION DATE: 05.02.2020

RESOLUTION NUMBER: 2020/02

Regarding the consolidated financial statements pertaining to the period from 01.01.2019 to 31.12.2019, which were prepared by the company and audited by PwC Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş. in compliance with Turkish Accounting Standards/Turkish Financial Reporting Standards ("TAS/ TFRS) and formats determined by Capital Markets Board (CMB) in accordance with the CMB's "Communiqué on Principles of Financial Reporting in Capital Markets" ("Communiqué") II.14.1, and include the consolidated statement of financial position, comprehensive income statement, statement of cash flow and statement of changes as well as notes to yearend financial statements ("Financial Statements" as a whole), we hereby declare our responsibility for the following:

- We have examined the financial statements;
- Within the frame of information we hold in our fields of duty and responsibility in the company, the financial statements do not contain any untrue statement on material events or any deficiency which may make them misleading as of the date of statement;
- Within the frame of information we hold in our fields of duty and responsibility in the company, the financial statements that are prepared pursuant to the Communiqué – together with those covered by consolidation, if any – fairly reflect the truth relating to assets, liabilities, financial statements, profits and losses of the company.

Sincerely,



Ahmet Nezir OLCAY
Chairman of Audit Committee



Ali İhsan KAMANLI
Member of Audit Committee



Ahmet Serdar GÖRGÜÇ
General Manager

CORPORATE GOVERNANCE

RESPONSIBILITY STATEMENT FOR ANNUAL REPORT

RESPONSIBILITY STATEMENT PURSUANT TO CAPITAL MARKET BOARD COMMUNIQUÉ II-14.1 ARTICLE 9 ON PRINCIPLES OF FINANCIAL REPORTING IN CAPITAL MARKETS

BOARD OF DIRECTORS' RESOLUTION ON APPROVAL OF THE ANNUAL REPORT

RESOLUTION DATE: 20.02.2020

RESOLUTION NUMBER: 2020/08

The 2019 Annual Report, which was prepared by the company and independently audited by PwC Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş. in compliance with Turkish Commercial Code and Capital Markets Board's "Communiqué on Principles of Financial Reporting in Capital Markets" ("Communiqué") II.14.1 is hereby presented.

In line with the CMB regulations, we hereby declare our responsibility for the following:

- We have examined the Annual Report prepared by the company;
- Within the frame of information we hold in our fields of duty and responsibility in the company, the Annual Report does not contain any untrue statement on material events or any deficiency, which may make it misleading as of the date of statement;
- Within the frame of information we hold in our fields of duty and responsibility in the company, the Annual Report prepared pursuant to the Communiqué fairly reflects the progress and performance of business, and along with those covered by consolidation, the financial standing of the entity, together with material risks and uncertainties faced by the company.

Sincerely,



Ahmet Nezih OLCAY
Board Member
Chairman of Audit Committee



Ali İhsan KAMANLI
Board Member
Member of Audit Committee



Ahmet Serdar GÖRGÜÇ
Board Member
General Manager

REPORTS AND FINANCIAL STATEMENTS

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OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

REPORT OF THE COMMITTEE RESPONSIBLE FOR THE AUDIT

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

We have convened to examine, and express our opinion concerning the consolidated financial tables for the period from 1 January 2019 to 31 December 2019, prepared by the governing body of Otokar Otomotiv ve Savunma Sanayi A.Ş. in accordance with the formats defined by the Turkish Financial Reporting Standards (TFRS) pursuant to the provisions of the Capital Markets Board ("CMB") Communiqué II-14.1 on the Principles of Financial Reporting in Capital Markets ("Communiqué") and the independent auditor's report prepared by PwC Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik Anonim Şirketi for the said financial statements.

We have evaluated the compliance, accuracy and truth of the consolidated financial tables to be disclosed to the public with the accounting principles followed by the company. Where necessary, the views of the independent auditor and the company's relevant responsible executives were sought.

Within the scope of information submitted to us and as a result of our evaluations, we have been convinced that the consolidated financial statements for the 1 January - 31 December 2019 period comply with the accounting principles that the company follows, and are accurate and true. We present these financial statements for the approval of the Board of Directors.

Sincerely,

05/02/2020

COMMITTEE RESPONSIBLE FOR THE AUDIT

Ahmet Nezih OLCAY
Chairman of the Committee



Ali İhsan KAMANLI
Member of the Committee



OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

CONVENIENCE TRANSLATION INTO ENGLISH OF CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY - 31 DECEMBER 2019 AND INDEPENDENT AUDITOR'S REPORT



INDEPENDENT AUDITOR'S REPORT

To the General Assembly of Otokar Otomotiv ve Savunma Sanayi A.Ş.

A. Audit of the consolidated financial statements

1. Our opinion

We have audited the accompanying consolidated financial statements of Otokar Otomotiv ve Savunma Sanayi A.Ş. (the "company") and its subsidiaries (collectively referred to as the "Group") which comprise the consolidated balance sheet as at 31 December 2019, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended and notes to the consolidated financial statements comprising a summary of significant accounting policies.

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2019, and its financial performance and its cash flows for the year then ended in accordance with Turkish Financial Reporting Standards ("TFRS").

2. Basis for opinion

Our audit was conducted in accordance with the Standards on Independent Auditing (the "SIA") that are part of Turkish Standards on Auditing issued by the Public Oversight Accounting and Auditing Standards Authority (the "POA"). Our responsibilities under these standards are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements" section of our report. We hereby declare that we are independent of the Group in accordance with the Ethical Rules for Independent Auditors (the "Ethical Rules") and the ethical requirements regarding independent audit in regulations issued by POA that are relevant to our audit of the financial statements. We have also fulfilled our other ethical responsibilities in accordance with the Ethical Rules and regulations. We believe that the audit evidence we have obtained during the independent audit provides a sufficient and appropriate basis for our opinion.

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

CONVENIENCE TRANSLATION INTO ENGLISH OF CONSOLIDATED FINANCIAL STATEMENTS

FOR THE PERIOD 1 JANUARY - 31 DECEMBER 2019 AND INDEPENDENT AUDITOR'S REPORT

3. Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. Key audit matters were addressed in the context of our independent audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matters	How audit matters are handled
<p>Warranty Expense Provision</p> <p>As explained in Note 15, the Group has warranty provision amounting to TRY 77.9 million as of 31 December 2019.</p> <p>The Group calculates warranty provisions for possible future claims, maintenance and repair expenses in the following years for products sold in the current year. Warranty provisions are calculated based on the remaining warranty period per vehicle and the warranty expense per vehicle estimated using the previous years' data.</p> <p>We focused on this matter during our audit for the reasons below:</p> <p>a) the amount of the warranty provision balance is material in the consolidated financial statements</p> <p>b) the warranty provision is calculated per vehicle, depending on certain assumptions such as the probable warranty claims per vehicle and foreign exchange rates. Changes in such assumptions may affect the consolidated financial statements.</p>	<p>We performed the following audit procedures to test the reasonableness of the warranty provision:</p> <ul style="list-style-type: none"> - We tested the controls related to reviewing and approving the Group's assumptions in establishing the accounting estimates used. - We tested the remaining warranty period per vehicle as follows: <ul style="list-style-type: none"> - Group management provided us with the warranty expense provision calculation. We checked the number of vehicles sold subject to the warranty calculation and tested the invoices of the vehicles sold in the current period by using the sampling method. - We tested the mathematical accuracy of the remaining warranty period calculated for each vehicle sold by recalculation. - We tested the warranty provision per vehicle estimated using the current and previous years' actual warranty expenses as stated below: <ul style="list-style-type: none"> - We compared the consistency of the actual warranty expenses with the Group management's past estimations and assumptions. - The Group calculates the current year's warranty expense provision per vehicle in hard currency based on the actual warranty expenses realized in the current and previous periods taking into consideration the changes in the foreign exchange rate. We assessed the reasonableness of the warranty expense provision taking into account the actual warranty expenses and fluctuations in the foreign exchange rate and compared this amount with the warranty expense provision calculated by the Group. - We tested the Group's actual warranty provision expenses for the current period using by sampling method.

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

CONVENIENCE TRANSLATION INTO ENGLISH OF CONSOLIDATED FINANCIAL STATEMENTS

FOR THE PERIOD 1 JANUARY - 31 DECEMBER 2019 AND INDEPENDENT AUDITOR'S REPORT

Key Audit Matters	How audit matters are handled
<p>Application of TFRS 16, “Leases” and its impacts on the consolidated financial statements and notes to the consolidated financial statements</p> <p>TFRS 16, “Leases” (“TFRS 16”) is effective for periods beginning on or after 1 January 2019. The application of the new standard resulted in the recognition of right of use assets amounting to TRY 23.3 million and increase in financial lease liabilities amounting to TRY 24.5 million. The Group has preferred the simplified transition method in the first time adoption of TFRS 16 and has not restated comparative consolidated financial statements.</p> <p>The amounts recognized as a result of the adoption of TFRS 16 are significant for the consolidated financial statements and the determination of the accounting policy requires the assessment of the Group management. In addition, the measurement of the right of use assets and financial lease liabilities are based on significant estimates and assumptions of the management. The substantial part of these estimates are interest rates used to discount cash flows and assessment of options to extend or terminate lease contracts. Nevertheless, the notes to the consolidated financial statements of the Group as of 31 December 2019 are significantly affected by the application of TFRS 16.</p> <p>Therefore, the impacts of the first time adoption of TFRS 16 on the consolidated financial statements and the notes to the consolidated financial statements are determined as a key audit matter for our audit.</p> <p>Please refer to notes 2.3.1, 6 and 12 to the consolidated financial statements for the amounts and disclosures, including the related accounting policies.</p>	<p>We performed the following procedures in relation to the application of TFRS 16, the impacts of the consolidated financial statements and notes to the consolidated financial statements:</p> <ul style="list-style-type: none"> • Understanding and evaluating the significant processes affecting financial reporting related to the adoption of TFRS 16, • Inquiring with the Group management and understanding their assessment regarding the transition process to TFRS 16 and assessing the compliance of their assessment with the transition rules of the standard, • Evaluating the completeness of the contract lists obtained from the Group management, assessment of selected contracts whether they are a service or lease contract and evaluating whether the contracts defined by the Group as leases are in scope of TFRS 16, • Evaluating the contracts are defined by Group as lease contracts whether they are in the scope of TFRS 16, • Evaluating the compliance of the simplified transition method applied by the Group in the transition period to the provisions related to transition, • Recalculation of the right of use assets and related financial lease liabilities recognised in the consolidated financial statements by using rates such as interest rate, rent increase rate etc. for the selected lease contracts that are in scope of TFRS 16, • Selecting the lease contracts used in the calculation of right of use assets and financial lease liabilities on a sample basis and testing the compliance of the term of the lease contracts and the assessment of the extension options applied if such options exist with the provision of the contract, • Testing the disclosures in the consolidated financial statements in relation to the application of TFRS 16 and evaluating the adequacy of such disclosures.

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

CONVENIENCE TRANSLATION INTO ENGLISH OF CONSOLIDATED FINANCIAL STATEMENTS

FOR THE PERIOD 1 JANUARY - 31 DECEMBER 2019 AND INDEPENDENT AUDITOR'S REPORT

4. Responsibilities of management and those charged with governance for the consolidated financial statements

The Group management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with TFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

5. Auditor's responsibilities for the audit of the consolidated financial statements

Responsibilities of independent auditors in an independent audit are as follows:

Our aim is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an independent auditor's report that includes our opinion. Reasonable assurance expressed as a result of an independent audit conducted in accordance with SIA is a high level of assurance but does not guarantee that a material misstatement will always be detected. Misstatements can arise from fraud or error. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an independent audit conducted in accordance with SIA, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement in the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Assess the internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our independent auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

CONVENIENCE TRANSLATION INTO ENGLISH OF CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY - 31 DECEMBER 2019 AND INDEPENDENT AUDITOR'S REPORT

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence. We also communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

B. Other responsibilities arising from regulatory requirements

1. No matter has come to our attention that is significant according to subparagraph 4 of Article 402 of Turkish Commercial Code ("TCC") No. 6102 and that causes us to believe that the company's bookkeeping activities concerning the period from 1 January to 31 December 2019 period are not in compliance with the TCC and provisions of the company's articles of association related to financial reporting.
2. In accordance with subparagraph 4 of Article 402 of the TCC, the Board of Directors submitted the necessary explanations to us and provided the documents required within the context of our audit.
3. In accordance with subparagraph 4 of Article 398 of the TCC, the auditor's report on the early risk identification system and committee was submitted to the company's Board of Directors on 5 February 2020.

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



Beste Ortaç, SMMM
Partner

Istanbul, 5 February 2020

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

CONSOLIDATED BALANCE SHEETS AS OF 31 DECEMBER 2019 AND 2018

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

		(Audited)	(Audited)
	Notes	31 December 2019	31 December 2018
Assets			
Current assets			
Cash and cash equivalents	4	222,722	173,017
Trade receivables	8	896,618	870,457
<i>Due from related parties</i>	27	219,900	399,044
<i>Due from third parties</i>	8	676,718	471,413
Other receivables		470	304
Inventories	10	768,185	690,013
Derivative financial instruments	7	-	297
Prepaid expenses	17	8,646	7,470
Other current assets	17	46,003	60,923
Total current assets		1,942,644	1,802,481
Non-current assets			
Trade receivables	8	51,001	7,930
<i>Due from third parties</i>	8	51,001	7,930
Other receivables		874	707
Investments accounted for using the equity method	5	56,162	13,305
Financial investment	11	147	-
Property, plant and equipment, net	12	129,072	107,603
Right of use assets, net	12	23,281	-
Intangible assets, net	13	372,539	280,656
Deferred income tax asset	25	101,997	90,064
Total non-current assets		735,073	500,265
Total assets		2,677,717	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 31 DECEMBER 2019 AND 2018

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

	Notes	(Audited) 31 December 2019	(Audited) 31 December 2018
Liabilities			
Kısa vadeli yükümlülükler			
Short-term borrowings	6	246,400	-
<i>Bank loans</i>		236,856	-
<i>Short-term lease liabilities</i>		9,544	-
Short-term portion of long-term borrowings	6	7,509	207,281
<i>Bank loans</i>		7,509	207,281
Trade payables	8	256,191	269,459
<i>Due to related parties</i>	27	29,731	25,346
<i>Due to third parties</i>	8	226,460	244,113
Derivative financial liabilities	7	1,100	-
Employee benefit obligations	17	38,276	30,344
Other payables	9	46,434	43,292
Obligations arising from customer contracts	17	288,137	196,791
Government grants	14	314	1,283
Short-term provisions	15	147,505	104,281
<i>Provisions for employee benefits</i>	16	12,520	10,443
<i>Other provisions</i>		134,985	93,838
Other current liabilities	17	5,881	15,409
Total current liabilities		1,037,747	868,140
Non-current liabilities			
Long-term borrowings	6	547,940	500,266
<i>Bank loans</i>	6	533,012	500,266
<i>Long-term lease liabilities</i>	6	14,928	-
Government grants	14	1,392	1,124
Long-term provisions	16	48,460	38,235
<i>Provisions for employee benefits</i>	16	48,460	38,235
Obligations arising from customer contracts	17	404,532	505,395
Total non-current liabilities		1,002,324	1,045,020
Total liabilities		2,040,071	1,913,160
Equity			
Paid-in share capital			
Inflation adjustment on share capital	18	24,000	24,000
Restricted reserves	18	52,743	52,743
Accumulated other comprehensive income and expense that will not be reclassified to statement of profit or loss	18	73,770	66,678
<i>Defined benefit plans remeasurement losses</i>	18	(9,741)	(3,586)
Accumulated other comprehensive income and expense that may be reclassified to statement of profit or loss	18	(9,741)	(3,586)
<i>Currency translation differences</i>		(12,380)	12,997
Retained earnings		(12,380)	12,997
Net profit for the period	18	157,662	72,418
	18	351,592	164,336
Total equity		637,646	389,586
Total liabilities and equity		2,677,717	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 OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE PERIODS

1 JANUARY - 31 DECEMBER 2019 AND 2018 (Amounts expressed in thousand Turkish Lira ("TRY") unless otherwise indicated.)

	Notes	(Audited) 1 January - 31 December 2019	(Audited) 1 January - 31 December 2018
Revenue	19	2,430,643	1,678,661
Cost of sales (-)	19	(1,511,592)	(1,085,704)
GROSS PROFIT		919,051	592,957
Marketing expenses (-)	20	(387,524)	(285,053)
General administrative expenses (-)	20	(120,006)	(91,886)
Research and development expenses (-)	20	(59,061)	(50,481)
Other operating income	22	284,663	344,701
Other operating expenses (-)	22	(173,177)	(278,826)
OPERATING PROFIT		463,946	231,412
Income from investing activities		541	-
Expenses from investing activities (-)		-	(2,454)
Share of profit/loss of investments accounted for using the equity method, net	5	39,774	12,182
OPERATING INCOME BEFORE FINANCIAL EXPENSES		504,261	241,140
Financial income	23	34,670	45,891
Financial expense (-)	24	(192,577)	(165,886)
PROFIT BEFORE TAX		346,354	121,145
Tax income/(expense) from continued operations			
Current tax expense (-)	25	(4,960)	(632)
Deferred tax income	25	10,198	43,823
PROFIT FOR THE PERIOD		351,592	164,336
Items that will not be reclassified to statement of profit or loss			
Remeasurement (losses)/gains		(7,890)	1,659
Deferred tax income/(expense)		1,735	(365)
Items that may be reclassified to statement of profit or loss			
Currency translation differences of investments accounted for using the equity method		3,086	1,123
Currency translation differences		(28,463)	9,478
Other comprehensive (losses)/income		(31,532)	11,895
TOTAL COMPREHENSIVE INCOME		320,060	176,231
Earnings per share (Kr)	26	1,465	0,685

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 1 JANUARY - 31 DECEMBER 2019 AND 2018

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

					Accumulated other comprehensive income and expense that will not be reclassified to statement of profit or loss	Accumulated other comprehensive income and expense that may be reclassified to statement of profit or loss				
		Paid in share capital	Inflation adjustment on share capital	Restricted reserves	Remeasurement losses on defined benefit plans	Currency translation differences	Retained earnings	Net income for the period		Total equity
Previous period	Opening balances	24,000	52,743	59,798	(4,880)	2,396	50,074	99,423		283,554
	Transfers	-	-	6,880	-	-	92,543	(99,423)		-
	Impact of the subsidiary that is currently included in consolidation	-	-	-	-	-	(199)	-		(199)
	Dividends paid	-	-	-	-	-	(70,000)	-		(70,000)
	Total comprehensive income	-	-	-	1,294	10,601	-	164,336		176,231
	Closing balances	24,000	52,743	66,678	(3,586)	12,997	72,418	164,336		389,586
Current period	Opening balances	24,000	52,743	66,678	(3,586)	12,997	72,418	164,336		389,586
	Transfers	-	-	7,092	-	-	157,244	(164,336)		-
	Dividends paid	-	-	-	-	-	(72,000)	-		(72,000)
	Total comprehensive income	-	-	-	(6,155)	(25,377)	-	351,592		320,060
	Closing balances	24,000	52,743	73,770	(9,741)	(12,380)	157,662	351,592		637,646

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 1 JANUARY - 31 DECEMBER 2019 AND 2018

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

	Notes	(Audited) 1 January - 31 December 2019	(Audited) 1 January - 31 December 2018
CASH FLOWS FROM OPERATING ACTIVITIES		424,299	280,354
Net profit for the period		351,592	164,336
Adjustments to reconcile net profit for the period to cash flows from operating activities		278,013	269,107
Depreciation and amortization	12, 13	79,298	60,772
Adjustments in relation to impairment:		7,075	14,805
- Provision for doubtful receivables	8	3,705	9,485
- Provision for inventories	10	3,370	5,320
Adjustments in relation to provision:		118,952	95,600
- Provision for employee benefits		11,834	16,417
- Warranty provision expenses	15, 21	100,090	46,276
- Adjustments for other provisions		7,028	32,907
Adjustments in relation to interest income and expenses:		127,330	116,632
- Interest income on time deposits	23	(1,887)	(3,977)
- Interest expense on borrowings	24	129,217	120,609
Adjustments in relation to unrealised foreign exchange gains and losses		25,737	17,283
Adjustments in relation to fair value gains and losses		(34,826)	(26,099)
- Fair value losses/(gains) on financial derivative instruments		(34,826)	(26,099)
- Adjustments for undistributed profits of investments accounted for using equity method		(39,774)	(12,182)
- Adjustments for undistributed profits of joint ventures	5	(39,774)	(12,182)
Adjustments in relation to gains or losses on sales of property, plant and equipment		(541)	2,454
- Gain on sale of property, plant and equipments		(541)	2,454
Adjustment on tax (expense)/income		(5,238)	-
Other adjustments of profit/(loss) reconciliation		-	(158)
Changes in net working capital		(163,176)	(116,166)
Change in trade receivables		(73,105)	(433,074)
Change in due from customers on contract works		-	312,030
Change in inventories		(81,542)	(282,277)
Change in trade payables		(13,268)	207,342
Other changes		4,739	79,813
- Changes in other operating assets		13,411	162,362
- Changes in other operating liabilities		(8,672)	(82,549)
Cash flows from operations		466,429	317,277
Payments in relation to employee benefits	16	(7,422)	(7,059)
Payments in relation to other provisions	15	(65,971)	(55,563)
Deductions/(payments) in relation to income tax		(4,960)	(632)
Other cash collections/(payments)		36,223	26,331
CASH FLOWS FROM INVESTING ACTIVITIES		(183,770)	(130,485)
Proceeds from sale of property, plant and equipment and intangible assets		1,471	(1,351)
- Proceeds from sale of property, plant and equipment		1,471	(1,351)
Cash outflows due to purchase of property, plant and equipment and intangible assets		(185,094)	(129,134)
- Cash outflows due to purchase of property, plant and equipment	12	(36,970)	(19,140)
- Cash outflows due to purchase of intangible assets	13	(148,124)	(109,994)
Other cash inflows/(outflows)		(147)	-
CASH FLOWS FROM FINANCING ACTIVITIES		(162,232)	(200,026)
Cash inflow from to borrowings		1,427,576	1,363,530
- Proceeds from bank borrowings	6	1,427,576	1,363,530
Cash outflow due to repayment of borrowings		(1,391,151)	(1,394,191)
- Repayments of borrowings	6	(1,391,151)	(1,394,191)
Cash outflows on debt payments from leasing agreements		(9,164)	-
Dividends paid		(72,000)	(70,000)
Interest paid		(119,380)	(103,342)
Interest received		1,887	3,977
NET DECREASE IN CASH AND CASH EQUIVALENTS BEFORE THE EFFECT OF CURRENCY TRANSLATION DIFFERENCES		78,297	(50,157)
Effect of currency translation difference on cash and cash equivalents		(28,592)	(5,784)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		49,705	(55,941)
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	222,722	173,017

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

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO CONSOLIDATED YEARS ENDED FINANCIAL STATEMENTS AT 31 DECEMBER 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 Küçüköyü/İstanbul

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

Subsidiaries	Country	Main activity	Field of activity
Otokar Europe SAS	France	Sales and marketing	Automotive
Otokar Land Systems LLC	United Arab Emirates	Sales and marketing	Automotive
Otokar Europe Filiala Bucuresti SRL	Romania	Sales and marketing	Automotive
Otokar Central Asia Limited	Kazakhstan	Sales and marketing	Automotive
Joint Ventures	Country	Main activity	Field of activity
Al Jasoor Heavy Vehicles Industry	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.

Otokar Land Systems has not been subject to consolidation in the prior reporting periods due to immaterial operating activities and it has been accounted under "Financial Investments". Its operating activities became material and Otokar Land Systems has been included in the consolidation scope as of 1 October 2018.

Europe Filiala Bucuresti S.R.L which is subsidiary of Otokar Europe SAS was established on 28 February 2018 in order to organise export activities in Romania and to increase its international sales especially in this region. Filiala Bucuresti S.R.L. has been included in the scope of consolidation as of 1 October 2018 since its operating activities became material.

Otokar Central Asia Limited Company was established on 5 November 2019 in Astana International Financial Center (AIFC), a special-status region that accepts the principles of British Law in Kazakhstan, in order to increase its international sales and follow up export activities. Since the financial activities of Otokar Central Asia Limited Company have not started yet, the investment was presented under financial investments in the consolidated financial statements.

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

	2019		2018	
	Year end	Average	Year end	Average
Total personnel number	1,957	1,994	1,966	2,044

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO CONSOLIDATED YEARS ENDED FINANCIAL STATEMENTS AT 31 DECEMBER 2019

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

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

The consolidated financial statements for the year ended 31 December 2019 were authorized for issue and signed by the Board of Directors of Otokar on 5 February 2020. The accompanying consolidated financial statements may be amended by the General Assembly.

Otokar is registered to the Capital Market Board ("CMB") and its shares are listed on the Borsa Istanbul A.Ş. ("BIST") since 1995. As of 31 December 2019, 27.85% of the shares are quoted on the BIST.

As of 31 December 2019, the principal shareholders and their respective shareholding percentages are as follows:

	(%)
Koç Holding A.Ş.	44.68
Ünver Holding A.Ş.	24.81
Other	30.51
	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.

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.

Consolidated financial statements have been presented in accordance with the formats specified in the "Announcement about TMS Taxonomy" published by the UPS on 15 April 2019 and the "Guidelines for Using Financial Statement Examples".

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO CONSOLIDATED YEARS ENDED FINANCIAL STATEMENTS AT 31 DECEMBER 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.

In accordance with the CMB's resolution dated 17 March 2005 and numbered 11/367, the financial statements were restated in accordance with International Accounting Standards (IAS) 29 (Financial Reporting in Hyperinflationary Economies) for the last time as of 31 December 2004, since the objective conditions which require the application of restatement of financial statements have not been realized and that based on the existing data CMB has foreseen that the indications whether such conditions are going to be realized in the future is no longer probable. Therefore, non-monetary assets, liabilities and equity items including the share capital as of 31 December 2019 and 31 December 2018 have been restated by applying the relevant conversion factors through carrying additions after 31 December 2004 at their nominal values.

Financial statements of foreign subsidiaries, joint ventures and associates

The assets and liabilities, presented in the financial statements of the foreign subsidiaries and joint ventures prepared in accordance with the Group's accounting policies, are translated into TRY at the exchange rate at the date of the balance sheet whereas income and expenses are translated at the average exchange rates for the respective periods. Exchange differences resulting from using the exchange rates at the balance sheet date and the average exchange rates are recognised in the currency translation differences under the equity.

2.2. Accounting errors and changes in accounting estimates

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

If changes in accounting estimates are related to only one period, they are recognised in the period when changes are applied; if changes in estimates are related to future periods, they are recognized both in the period where the change is applied and future periods prospectively. The accounting policies except the situation stated below used in the preparation of these consolidated financial statements for the year ended 31 December 2019 are consistent with those used in the preparation of financial statements for the year ended 31 December 2018.

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO CONSOLIDATED YEARS ENDED FINANCIAL STATEMENTS AT 31 DECEMBER 2019

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

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

2.3. Changes in accounting policies

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

2.3.1. IFRS 16 "Leases"

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:

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,

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO CONSOLIDATED YEARS ENDED FINANCIAL STATEMENTS AT 31 DECEMBER 2019

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

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

2.3. Changes in accounting policies (Continued)

The Group has the right to manage the use of the defined asset. The Group has the right to manage the use of the asset in the presence of any of the following situations:

- a) 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
- b) 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
 - 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

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

Right of use of assets

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.

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO CONSOLIDATED YEARS ENDED FINANCIAL STATEMENTS AT 31 DECEMBER 2019

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

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

2.3. Changes in accounting policies (Continued)

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.

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 IFRS 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 IFRS 16. Lease payments of these contracts are continued to be recognised in profit or loss in the related period. The Group applied a single discount rate to a portfolio of leases which have similar characteristics (asset classes which have similar remaining rent periods in a similar economic environment).

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO CONSOLIDATED YEARS ENDED FINANCIAL STATEMENTS AT 31 DECEMBER 2019

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

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

2.3. Changes in accounting policies (Continued)

The Group as the leaser

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

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 IFRS 16 "Leases", the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 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
Operating lease commitments within the scope TAS 17	20,548
- 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 IFRS 16 (non-discounted)	20.477
Total lease liability recognised under IFRS 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 CONSOLIDATED YEARS ENDED FINANCIAL STATEMENTS AT 31 DECEMBER 2019

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

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

2.3. Changes in accounting policies (Continued)

The details of the right-of-use of assets recognised by each asset type in financial statements as of 31 December 2019 and 1 January 2019 are as follows:

	31 December 2019	1 January 2019
Building	14,033	9,633
Vehicles	8,406	7,801
Furniture and fixtures	842	421
Total right-of-use assets	23,281	17,855

The practical expedients applied in transition

Within the scope of the transition, the following practices defined in IFRS 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 IFRS 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).

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO CONSOLIDATED YEARS ENDED FINANCIAL STATEMENTS AT 31 DECEMBER 2019

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

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

2.3. Changes in accounting policies (Continued)

2.3.2. New standards and amendments

a. *New standards, amendments and interpretations to existing standards as of 31 December 2019:*

- **Amendment to IFRS 9, 'Financial instruments';** effective from annual periods beginning on or after 1 January 2019. This amendment confirmed two points: (1) that reasonable compensation for prepayments can be both negative or positive cash flows when considering whether a financial asset solely has cash flows that are principal and interest and (2) 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, with earlier application permitted if IFRS 15 'Revenue from Contracts with Customers' is also applied. This standard replaces the current guidance in IAS 17 and is a far-reaching change in accounting by lessees in particular. Under IAS 17, lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 16 now requires lessees to recognise a lease liability reflecting future lease payments and a 'right of use asset' for virtually all lease contracts. The IASB has included an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees. For lessors, the accounting stays almost the same. However, as the IASB has updated the guidance on the definition of a lease (as well as the guidance on the combination and separation of contracts), lessors will also be affected by the new standard. At the very least, the new accounting model for lessees is expected to impact negotiations between lessors and lessees. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO CONSOLIDATED YEARS ENDED FINANCIAL STATEMENTS AT 31 DECEMBER 2019

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

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

2.3. Changes in accounting policies (Continued)

- **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.
- 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.

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

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

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

2.3. Changes in accounting policies (Continued)

b. Standards, amendments and interpretations that are issued but not effective as at 1 January 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
- **Amendments to IFRS 9, IAS 39 and IFRS 7 – Interest rate benchmark reform;** effective from Annual periods beginning on or after 1 January 2020. These amendments provide certain reliefs in connection with interest rate benchmark reform. The reliefs relate to hedge accounting and have the effect that IBOR reform should not generally cause hedge accounting to terminate. However, any hedge ineffectiveness should continue to be recorded in the income statement. Given the pervasive nature of hedges involving IBOR-based contracts, the reliefs will affect companies in all industries
- **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

Standards issued but not yet effective and not early adopted

Standards, interpretations and amendments to existing standards that are issued but not yet effective up to the date of issuance of the consolidated financial statements as of 31 December 2019 are as follows. The Group will make the necessary changes if not indicated otherwise, which will be affecting the consolidated financial statements and disclosures, when the new standards and interpretations become effective.

2.4. Significant accounting judgments and estimates

The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting year. Actual results could differ from those estimates. Those estimates are reviewed periodically, and as adjustments become necessary, they are reported in earnings in the periods in which they become known.

Significant estimates used in the preparation of these consolidated financial statements and the significant judgments with the most significant effect on amounts recognized in the consolidated financial statements are as follows:

- a) Deferred tax asset is recognised to the extent that taxable profit will be available against which the deductible temporary differences can be utilized. When taxable profit is probable, deferred tax asset is recognised for all deductible temporary differences. For the year ended 31 December 2019, since the Management believed the indicators demonstrating that the Group will have taxable profits in the foreseeable future- are reliable, deferred tax asset has been recognized.

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

2.4. Significant accounting judgments and estimates (Continued)

- b) The Group determines warranty provision by considering the past warranty expenses and remaining warranty period per vehicle
- c) The Group has made certain important assumptions based on experiences of technical personnel in determining useful economic lives of property, plant and equipment and intangible assets.
- d) The Group has made certain assumptions based on experiences of technical personnel in determining impairment for inventories

2.5. 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 IFRS. 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 31 December 2019 and 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	100	100
Otokar Central Asia Limited	100	100	-	-

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

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

2.5. Summary of significant accounting policies (Continued)

Joint Ventures

Joint Ventures are companies in respect of which there are contractual arrangements through which an economic activity is undertaken subject to joint control by Otokar and one or more other parties. Otokar exercises such joint control through direct and indirect voting rights related to the shares held by itself and/or through the voting rights related to the shares held by Otokar and the companies owned by them. "IFRS 11 Joint Arrangements", effective for the annual periods on or after 1 January 2013, supersedes "IAS 31 Shares in Joint Ventures" and requires the application of the equity method for the consolidation of interests in joint ventures in accordance with "IAS 28 Investments in Associates and Joint Ventures".

Under the equity method, the investment in a joint venture is initially recognised at cost and the carrying amount is increased or decreased to recognise the investor's share of profit or loss of the investee after the date of the acquisition. The investor's share of the profit or loss of the investee is recognised in the investor's profit or loss. Distributions (dividends etc.) received from an investee reduce the carrying amount of the investment. Adjustments to the carrying amount are necessary for the change in the investor's proportionate interest in the investee arising from changes in the investee's other comprehensive income.

The table below sets out all joint ventures and shows the direct and indirect ownership and proportion of effective interest of the Group in these joint ventures at 31 December 2019 and 2018:

Joint ventures	2019		2018	
	Direct and indirect ownership (%)	Proportion of effective interest (%)	Direct and indirect ownership (%)	Proportion of effective interest (%)
Al Jasoor Heavy Vehicles Industry LLC (*)	49	49	49	49

(*) Al Jasoor Heavy Vehicles Industry LLC, owned 49% of shares by Otokar Land Sytems LLC which is a subsidiary of the Group, was established on 28 May 2017 with the purpose of selling and marketing in the UAE.

Revenue recognition

Group recognizes revenue when the goods or services is transferred to the customer and when performance obligation is fulfilled. Goods is counted to be transferred when the control belongs to the customer

Group recognizes revenue based on the following main principles:

- Identification of customer contracts
- Identification of performance obligations
- Determination of transaction price in the contract
- Allocation of price to performance obligations
- Recognition of revenue when the performance obligations are fulfilled

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO CONSOLIDATED YEARS ENDED FINANCIAL STATEMENTS AT 31 DECEMBER 2019

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

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

2.5. Summary of significant accounting policies (Continued)

Group recognized revenue from its customers only when all of the following criteria are met:

- (a) The parties to the contract have approved the contract (in writing, orally or in accordance with other customary business practices) and are committed to perform their respective obligations,
- (b) Group can identify each party's rights regarding the goods or services to be transferred,
- (c) Group can identify the payment terms for the goods or services to be transferred;
- (d) The contract has commercial substance,
- (e) It is probable that Group will collect the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer

In evaluating whether collectability of an amount of consideration is probable, an entity shall consider only the customer's ability and intention to pay that amount of consideration when it is due.

Service revenue is recognized in the period services given. Service revenue in the context of repair maintenance agreements for more than one year are recognized in equal installments (straight line method) during the agreement periods and amounts belonging to the following periods are booked as deferred revenue.

When the arrangement effectively constitutes a financing transaction, the fair value of the consideration is determined by discounting all future receipts using an imputed rate of interest. The difference between the fair value and the nominal amount of the consideration is recognized on an accrual basis as financial income.

Interest income is recognised using the effective interest rate until maturity and considering the effective interest rate

Revenue from sale of goods

Group recognizes revenue based on the production and sale of armoured vehicles, bus and minibus. Revenue is recognized when the control of the goods is transferred to the customer. In addition, Group provides legal warranty commitment to its customers depending on the type of goods and the location of sale between 1-2 years. These legal warranty commitments are mandatory by regulations, have not a separate price apart from the good and are not separately sold. Therefore, they are not treated as a separate good or service apart from the sale of good.

Revenue from sale of extended warranty

Group sells extended warranty to its customer for the period after the termination of legal warranty provided for all goods. The price of extended warranty is determined separately from the price of the goods and it is a separate performance obligation in the contract. Therefore, Group treats the service that will be provided due to the sale of extended warranty as a separate performance obligation.

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

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

2.5. Summary of significant accounting policies (Continued)

Related parties

- (a) A person or a close member of that person's family is related to a reporting entity if that person:
 - (i) has control or joint control over the reporting entity,
 - (ii) has significant influence over the reporting entity; or
 - (iii) is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.
- (b) In the existence of any instances stated below, the entities shall be considered as related parties to the company
 - (i) Entity and company are member of same group.
 - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
 - (iii) Both entities are joint ventures of the same third party.
 - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
 - (v) The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.
 - (vi) The entity is controlled or jointly controlled by a person identified in (a).
 - (vii) A person identified in (a) (i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Inventories

Inventories are valued at the lower of cost or net realizable value. Cost incurred in bringing each product to its present location and conditions are included in the cost of inventory.

Raw materials and merchandises - cost is determined on a weighted average basis over the costs net of imputed interest.

Finished goods and work-in progress -cost of direct materials and labor and a proportion of manufacturing overheads are included based on normal operating capacity using average cost method.

Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale (Note 10).

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

2.5. Summary of significant accounting policies (Continued)

Property, plant and equipment

All property and equipments are initially recorded at cost and then are carried at restated cost until 31 December 2004 with the index of the related purchase date. Property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment loss.

The initial cost of property and equipment comprises its purchase price, including import duties and non-refundable purchase taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after property, plant and equipment have been put into operation, such as repairs and maintenance, are normally charged to income in the year the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of property and equipment.

The useful lives and depreciation methods are reviewed periodically to ensure that the method and period of depreciation are consistent with the expected pattern of economic benefits from items of property, plant and equipment.

Depreciation is provided on cost or revalued amount of property, plant and equipment on a straight line basis. Estimated useful lives are as follows:

Land improvements	25-30 years
Building	3-30 years
Machinery and equipment	3-15 years
Vehicles	4-9 years
Furniture and fixtures	5-15 years
Leasehold improvements	5 years

Land is not amortized since it has an unlimited economic life.

Gains and losses on sale of property, plant and equipment are included in investment activity income and expense.

Intangible assets

Intangible assets mainly comprise software rights, information systems, project costs related to new product development and computer software. Intangible assets are initially stated at cost and are restated until 31 December 2004 with the index of the related purchase date. Intangible assets are stated at cost less accumulated depreciation and accumulated impairment loss.

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

2.5. Summary of significant accounting policies (Continued)

Intangible assets are amortized on a straight-line basis over the estimate of their useful lives, which is up to 5 years. Intangible assets are recognized if it is probable that the future economic benefits that are attributable to the asset will flow to the enterprise; and the cost of the asset can be measured reliably. Where the carrying amount of an intangible asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

Research and development expenses

Research expenditures are recognized as an expense when they are incurred.

Intangible assets arising from in-house development activities (or the improvement phase of an intergroup project) are recognized when all of the following conditions are met:

- existence of the technical feasibility of completing the intangible asset so that it will be available for use or sale,
- existence of the intention to complete the intangible asset and use or sell it,
- existence of the ability to use or sell the intangible asset,
- reliability of how the intangible asset will generate probable future economic benefits,
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset and
- existence of the ability to measure reliably the expenditure attributable to the intangible asset during its development.

Other development expenditures are recognized as an expense as incurred. Development costs previously recognized as an expense are not capitalized as an asset in a subsequent period. Capitalized development expenses are amortized in expected useful life which is 5 years by straight-line method effective from the start of the production.

Investment, research and development incentives

Government grants are recognized where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognized as income over the period necessary to match the grant on a systemic basis to the costs that it is intended to compensate. Where the grant relates to an asset, it is recorded as deferred income.

Investment and research and development incentives are recognized when the company's incentive requests (applications) are approved by fiscal authorities.

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

2.5. Summary of significant accounting policies (Continued)

Income taxes

Income tax is the aggregate amount included in the determination of net profit or loss for the year in respect of current and deferred tax.

The current income tax charge is calculated in accordance with the tax laws enacted or substantively enacted at the balance sheet date in Turkey. Under the Turkish Tax Code, companies having head office or place of business in Turkey are subject to corporate tax. A provisional tax accrual is recognized in the financial statements for current taxation. Current tax charge is calculated over operational results considering the effects of disallowable and exemptions.

Furthermore, provisional corporate taxes are paid at 22% over profits declared for interim periods in order to be deducted from the final corporate tax.

Under the Turkish taxation system, tax losses can be carried forward to be offset against future taxable income for five years. Tax losses cannot retrospectively offset against the profits of previous years.

Deferred income tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred income tax assets are recognised for all deductible temporary differences and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. The carrying amount of deferred income tax assets is reviewed by the company at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized.

Deferred tax assets and liabilities are presented net in the consolidated financial statements.

Provision for employment termination benefits

In accordance with existing social legislation in Turkey, the company is required to make lump-sum termination indemnities to each employee who has completed over one year of service with the company and whose employment is terminated due to retirement or for reasons other than resignation or misconduct

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

2.5. Summary of significant accounting policies (Continued)

In the financial statements, the company has recognized a liability using the "Projected Method" based upon factors derived using the company's experience of personnel terminating and being eligible to receive benefits, discounted by using the current market yield at the balance sheet date on government bonds. All actuarial gains and losses are recognized in the statement of other comprehensive income.

Foreign currency transactions

Transactions in foreign currencies during the year have been translated at the exchange rates prevailing at the dates of such transactions. Monetary balance sheet items denominated in foreign currencies have been translated at the Central Bank of Turkey (TCB) exchange rates prevailing at the balance sheet date.

Provisions

Provisions are recognised when the company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Provisions are revised at each balance sheet date and amended in order to reflect management's recent estimations.

Contingent liabilities and assets

Assets and liabilities that originate from past incidents and whose presence is not fully under the entity's control as it can only be confirmed through the realization of one or more indefinite incidents to take place in the future are not included in the financial statements and are considered as contingent liabilities and assets.

Contingent liabilities are not recognized in the financial statements. They are disclosed only, if the probability of outflow of resources embodying economic benefits is not highly probable. A contingent asset is not recognized in the financial statements but disclosed when an inflow of economic benefits is mostly probable.

Share capital and dividend

Ordinary shares are classified under share capital. Dividend distribution on ordinary shares is recognized as an appropriation of profit in the period in which they are declared.

Operational leases

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

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

2.5. Summary of significant accounting policies (Continued)

Warranty expenses

Warranty expenses are recorded as a result of repair and maintenance expenses for products produced and sold, authorized services' labor and material costs for products under the scope of the warranty terms without any charge to the customers, initial maintenance costs and estimated costs based on statistical information for possible future warranty services and returns of products with respect to the products sold during the year.

Financial instruments

Financial assets

The Group classifies its financial assets in the following categories: amortised cost and fair value through profit or loss. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Financial assets measured at amortised cost

Financial assets measured at amortised cost are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. Trade receivables and cash and cash equivalents are classified in this category.

Financial assets carried at fair value through profit or loss

Financial assets carried at fair value through profit or loss comprise of "derivative instruments" in the statement of financial position. Derivative instruments are recognized as asset when the fair value of the instrument is positive, as liability when the fair value of the instrument is negative.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and at banks and short-term highly liquid and the risk of value change is not material investments including time deposits generally having original maturities of three months or less.

Bank accounts consist of time and demand deposit accounts and the related interest accrued. The Turkish Lira balances are stated at face values and the foreign currency balances are translated into Turkish Lira at the foreign currency rate issued by the Central Bank as at the report date. Time deposit accounts are stated as calculated by adding accrued interest as of balance sheet date on the principle amount.

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

2.5. Summary of significant accounting policies (Continued)

Trade receivables

Trade receivables and notes and post-dated checks classified within trade receivables which are recognized at original invoice amount are measured at amortized cost using the effective interest rate method. Short term trade receivables without specified interest rate, are measured at invoice amount when the interest accrual effect is immaterial.

A credit risk provision for trade receivables is established if there is objective evidence that the Group will not be able to collect all amounts due. The allowance is an estimated amount which is difference between existing receivable and collectible amount. Collectible amount is the discounted value of trade receivables, all cash flows including collections from guarantees by using original effective interest rate.

Group may enter into factoring agreement for its trade receivables and the amount provided from factoring companies is recorded as financial liability in the consolidated financial statements.

Post dated cheques received with maturity dates exceeding the balance sheet date are classified in trade receivables and are rediscounted using the interest rates determined for government debt securities by considering the interest levels arising in the stock exchanges or other organized markets.

A credit risk provision for trade receivables is established if there is objective evidence that the Group will not be able to collect all such receivables. The allowance for doubtful receivables is established through a provision charged to expenses. Provision is made when there is objective evidence that the Group will not be able to collect the debts. The allowance is an estimated amount that management believes to be adequate to absorb possible future losses on existing receivables that may become uncollectible due to current economic conditions and inherent risks in the receivables. Bad debts are written off when identified. Provision for doubtful receivables is recognized as an expense when identified.

If a portion or the entire amount of a receivable is collected after provided for a provision, the collected amount is deducted from total provision and is recognized as an income in the comprehensive income statement.

Group has preferred to apply "simplified approach" defined in IFRS 9 for the recognition of impairment losses on trade receivables, carried at amortised cost and that do not comprise of any significant finance component (those with maturity less than 12 months). In accordance with the simplified approach, Group measures the loss allowances regarding its trade receivables at an amount equal to "lifetime expected credit losses" except incurred credit losses in which trade receivables are already impaired for a specific reason.

Trade payables

Trade payables are recognized initially at fair value of and subsequently measured at amortized cost using the effective interest method.

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

2.5. Summary of significant accounting policies (Continued)

Borrowings

Short and long term bank loans are stated at the value computed through addition of the principal amount and the interest expenses accrued as of the balance sheet date.

Borrowings are recognized initially at proceeds received, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost using the effective yield method; any difference between the proceeds and redemption value is recognized in the comprehensive income statement over the period of the borrowings.

Derivative financial instruments

Derivative financial instruments are initially recognised in the balance sheet at cost and subsequently are re-measured at their fair value. The derivative instruments of the company mainly consist of foreign exchange forward contracts and related transactions. These derivative transactions, even though providing effective economic hedges under the company risk management position, do not generally qualify for hedge accounting, therefore treated as 'derivative financial instruments held for trading. Any gains or losses arising from changes in the fair value of such kind of financial instruments are recognized under statement of profit and loss.

Impairments in financial assets

Financial assets are assessed at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that had occurred after the initial recognition of the asset and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. For loans and receivables impairment loss has been incurred the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows.

Except for trade receivables, which is reduced through the use of an allowance account, impairment on all other financial assets are directly written off in the related account. In case trade receivables cannot be collected, the related amount is written off from allowance account. The change in allowance account is accounted in the comprehensive income statement.

Recognition and derecognition of financial assets and liabilities

The Group recognizes a financial asset or financial liability in its balance sheet only when it becomes a party to the contractual provisions of the instrument. The Group derecognizes a financial asset or a portion of it only when the control on rights under the contract is discharged. The company derecognizes a financial liability when the obligation under the liability is discharged, cancelled or expires.

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

2.5. Summary of significant accounting policies (Continued)

All regular way financial asset purchase and sales are recognized at the date of the transaction, the date the Group committed to purchase or sell. The mentioned purchases or sales are ones which require the delivery of the financial assets within the time interval identified with the established practices and regulations in the market.

Foreign currency transactions

Monetary balance sheet items denominated in foreign currencies have been translated to Turkish Lira at the Central Bank of Turkey exchange rates prevailing at the balance sheet date. Exchange gains or losses arising on translation of foreign currency denominated assets and liabilities are included in the comprehensive income statement.

Earnings per share

Basic earnings per share are calculated by dividing the net profit by the weighted average number of ordinary shares outstanding during the year.

The companies can increase their share capital by making a pro-rata distribution of shares ("Bonus Shares") to existing shareholders without consideration for amounts resolved to be transferred to share capital from retained earnings and share capital inflation adjustments. For the purpose of the earnings per share calculation such Bonus Share issues are regarded as stock dividends. Accordingly, the weighted average number of shares used in earnings per share calculation is derived by giving retroactive effect to the issue of such shares.

Subsequent events

Subsequent events comprise all events occurred between the date of authorization of the financial statements for issuance and the balance sheet date.

The Group updates its financial statements and respective disclosures that relate to conditions that existed at the end of the reporting period to regarding any new information that they receive after the reporting period which require amendment. Non-adjusting events are solely disclosed if they are of such importance

Impairment of non-financial assets

At each reporting date, the company assesses whether there is any indication that carrying value of assets except financial assets and deferred tax assets is impaired or not. When an indicator of impairment exists, the company estimates the recoverable values of such assets. When individual recoverable value of assets cannot be measured, recoverable value of cash generating unit of that asset is measured.

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

2.5. Summary of significant accounting policies (Continued)

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. Recoverable amount is the higher of net selling price or value in use. Net selling price is determined by deducting any expenses to be incurred for the sale of an asset from the fair value of the asset. Value in use is calculated as the discounted value of the estimated future cash flows the entity expects to receive from the asset.

When recoverable amount of an asset (or a cash generating unit) is lower than its carrying value, the asset's carrying value is reduced to its recoverable amount. An impairment loss is recognized immediately in the comprehensive income statement.

An impairment loss recognized in prior periods for an asset is reversed if the subsequent increase in the asset's recoverable amount is caused by a specific event since the last impairment loss was recognized. Such a reversal amount cannot be higher than the previously recognized impairment and is recognized as income in the financial statements.

Borrowing costs

Borrowing costs comprise interest expense, foreign exchange losses arising from financing activities and other costs related with financing.

Borrowing costs directly attributable to the acquisition of qualifying assets are capitalised as part of the cost of the respective assets. Capitalization is ceased when the -operations to bring the qualifying asset ready for sale or use- are completed. Qualifying assets are those assets whose construction or production takes a substantial period of time to get ready for its intended use or sale.

Borrowing costs that are not in this scope are recognised directly in the income statement.

Offsetting

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liabilities simultaneously.

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 19). Thus, segment reporting is not performed.

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NOTE 4 - CASH AND CASH EQUIVALENTS

	31 December 2019	31 December 2018
Banks		
- Time deposits	144,016	134,463
- Demand deposits	78,649	37,799
Cheques and notes receivable	-	596
Other	57	159
	222,722	173,017

As of 31 December 2019, TRY62,745 thousand of the total amount of time deposits amounting to TRY144,016 thousand is denominated in foreign currency and the annual effective interest rate is 0.95% and has a maturity of 6 days. The annual effective interest rate of the remaining TRY81,271 thousand is 10.48% and has a maturity of 6 days.

(As of 31 December 2018, TRY120,917 thousand of the total amount of time deposits amounting to TRY134,463 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 31 December 2019, the Group has restricted bank deposit amounting to TRY0,2 thousand (31 December 2018: TRY450 thousand).

NOTE 5 - INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

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

Joint ventures	Share (%)	2019	Share (%)	2018
		Amount		Amount
Al Jasoor	49	56,162	49	13,305
		56,162		13,305

The movement of the joint venture is as follows:

	2019	2018
1 January	13,305	-
Shares of profit	39,774	12,182
Currency translation differences	3,083	1,123
31 December	56,162	13,305

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NOTE 5 – INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (Continued)

The summary of the financial statements of Al Jasoor as of 31 December 2019 is as follows:

	31 December 2019	31 December 2018
Total assets	989,834	1,547,656
Total liabilities	(876,650)	(1,520,502)
Foreign currency translation differences	1,432	-
Net assets	114,616	27,154
Ownership of the Group	49%	49%
Net asset share of the Group	56,162	13,305

NOTE 6 - BORROWINGS

Short-term financial borrowings

31 December 2019	Maturities	Annual effective interest rate (%)	Amount
Bank borrowings			
EUR borrowings	2 January 2020	1.04	139,676
RON borrowings	14 December 2020	5.22	97,180
			236,856
Borrowings from lease liabilities			
EUR lease liabilities	-	6.00	6,802
TRY lease liabilities	-	25.00	2,742
			9,544
Total short-term financial liabilities			246,400

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NOTE 6 - BORROWINGS (Continued)

31 December 2019	Maturities	Annual effective interest rate (%)	Amount
Principals and interest accruals on the short-term portion of long-term borrowings (*)			
TRY borrowings	-	14.15-15.01	6,697
EUR borrowings	-	2.35	812
			7,509

(*) Bearing fixed interest rate

31 December 2019	Maturities	Annual effective interest rate (%)	Amount
Long-term bank loans (*)			
TRY borrowings	1 October 2021 -3 October 2022	14.15-15.01	400,000
EUR borrowings	20 September 2021	2.35	133,012
			533,012

(*) Bearing fixed interest rate

Borrowings from lease liabilities

	Maturities	Annual effective interest rate (%)	Amount
EUR borrowings	-	6.00	10,639
TRY borrowings	-	25.00	4,289
			14,928
Total long-term financial borrowings			547,940

31 December 2018	Maturities	Annual effective interest rate (%)	Amount
Principals and interest accruals on the short-term portion of long-term borrowings (*)			
TRY borrowings		14.27-14.44	207,281
			207,281

(*) Bearing fixed interest rate

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NOTE 6 - BORROWINGS (Continued)

31 December 2018	Maturities	Annual effective interest rate (%)	Amount
Long-term bank borrowings(*)			
TRY borrowings	9 March 2020 - 7 January 2021	16.28-33.55	440,000
EUR borrowings	6 January 2020	3.85	60,266
			500,266

(*) Bearing fixed interest rate

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

The movement of the borrowings for the years ended 31 December 2019 and 2018 are as follows:

	2019	2018
1 January	707,547	703,658
Borrowing received during the period	1,427,576	1,363,530
Effect of change due to TFRS 16	17,855	-
Cash outflows related to debt payments from leasing agreements	(9,457)	-
Effect of new lease contracts	13,905	-
Principal payments (-)	(1,391,151)	(1,394,191)
Change in interest accruals	9,837	17,267
Change in exchange rates	25,737	17,283
31 December	801,849	707,547

	31 December 2019		31 December 2018	
	Carrying values	Fair values	Carrying values	Fair values
Fixed interest	680,197	702,200	707,547	730,140
Variable interest (*)	97,180	97,180	-	-
	777,377	799,380	707,547	730,140

(*) The fair values of variable interest borrowings converge to their carrying values.

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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

	Contract amount	Current period contract maturity	Fair value assets
31 December 2019			
Forward transactions	612,478	9 January 2020 31 January 2020	(1,100)
Short-term derivative financial instruments	612,478		(1,100)
Total derivative financial instruments	612,478		(1,100)

	Contract amount	Current period contract maturity	Fair value assets
31 December 2018			
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

NOTE 8 - TRADE RECEIVABLES AND PAYABLES

Trade receivables

	31 December 2019	31 December 2018
Trade receivables, net	591,833	426,547
Notes receivables, net	131,586	88,378
	723,419	514,925
Less: provision for doubtful receivables	(46,701)	(43,512)
	676,718	471,413
Short-term trade receivables		
	219,900	399,044
Trade receivables from related parties (Note 27)		
	896,618	870,457
Short-term trade receivables		
	51,001	-
Long-term trade receivables, net		
Long-term notes receivable, net	-	7,930
Long-term trade receivables	51,001	7,930

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NOTE 8 - TRADE RECEIVABLES AND PAYABLES (Continued)

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

As of 31 December 2019 and 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 minibuses and bus sales to dealers and trailer and armored vehicle sales. As of 31 December 2019, the total trade receivable from dealers amounting to TRY92,084 thousand (31 December 2018: TRY59,217 thousand), after provision provided for doubtful receivables, has been secured by mortgages and guarantees at the amount of TRY92,268 thousand (31 December 2018: TRY59,635 thousand). The Group manages the credit risk of remaining balance in the manner described in the Credit Risk section of Note 28 to the consolidated financial statements.

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

31 December 2019	
1- 30 day past due	-
1- 3 month past due	-
3- 12 month past due	-
1- 5 year past due	270
Over 5 years past due	-
	270
Amount secured with guarantees	270
31 December 2018	
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	-
	255
Amount secured with guarantees	255

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

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NOTE 8 - TRADE RECEIVABLES AND PAYABLES (Continued)

The movement of the provision for doubtful receivables for the years ended 31 December 2019 and 2018 are as follows:

	2019	2018
1 January	43,512	33,985
Collections	(684)	(362)
Currency translation differences	168	404
Exchange differences	3,705	9,485
31 December	46,701	43,512

Trade payables

	31 December 2019	31 December 2018
Trade payables, net	225,948	243,707
Notes payables, net	512	406

Short-term other trade payables	226,460	244,113
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Trade payables to related parties (Note 27)	29,731	25,346
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Short-term trade payables	256,191	269,459
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As of 31 December 2019, average payment term for trade payables is 45-60 days (31 December 2018: 45-60 days).

As of 31 December 2019 and 2018, the fair values of trade payables approximate to their carrying values due to short-term maturity of those payables.

NOTE 9 - OTHER RECEIVABLES AND PAYABLES

Other short-term receivables

	31 December 2019	31 December 2018
Due from personnel	362	217
Deposits and guarantees given	108	87
	470	304

Other long-term receivables

	31 December 2019	31 December 2018
Deposits and guarantees given	874	707
	874	707

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NOTE 9 - OTHER RECEIVABLES AND PAYABLES (Continued)

Other short-term payables

	31 December 2019	31 December 2018
Other miscellaneous payables	46,434	43,292
	46,434	43,292

As explained in Note 15, TRY40,725 thousand (31 December 2018: TRY36,169 thousand) of other miscellaneous payables was collected but not credited to statement of profit or loss, since the lawsuit in relation to deductible corporate tax from Research and Development expenses has not been finalised.

NOTE 10 - INVENTORIES

	31 December 2019	31 December 2018
Raw material	229,304	295,244
Semi-finished goods	72,267	23,747
Finished goods	246,131	168,122
Merchandise goods	117,692	111,391
Goods in transit	112,153	97,501
Impairment for inventories (*)	(9,362)	(5,992)
	768,185	690,013

(*)TRY325 thousand of impairment is related to finished goods (31 December 2018: TRY127 thousand) and TRY818 thousand is related to merchandises (31 December 2018: TRY562 thousand). TRY8,219 thousand of impairment (31 December 2018: TRY5,303 thousand) is related to raw materials. The impairment has been accounted for under cost of sales.

The movements of impairment for inventories in 2019 and 2018 are as follows:

	2019	2018
1 January	(5,992)	(700)
Increase during the period	(3,370)	(5,320)
Reversal of provisions	-	28
31 December	(9,362)	(5,992)

NOTE 11 - FINANCIAL INVESTMENT

Otokar Central Asia Limited company was established on 5 November 2019 in Astana International Financial Center (AIFC), a special-status region that accepts the principles of British Law in Kazakhstan, in order to increase overseas sales and follow up export activities.

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NOTE 12 - PROPERTY, PLANT AND EQUIPMENT

Movements of property, plant and equipment and related accumulated depreciation for the year ended 31 December 2019 is as follows:

	1 January 2019	Additions	Currency translation differences	Disposal	Transfers	31 December 2019
Cost						
Land	37,457	-	-	(20)	-	37,437
Land improvements	8,583	25	-	-	-	8,608
Buildings	58,489	489	-	-	642	59,620
Machinery and equipment	106,570	5,172	115	(70)	466	112,253
Motor vehicles	9,345	1,226	-	(789)	-	9,782
Furniture and fixtures	38,143	11,300	71	(57)	3,711	53,168
Leasehold improvements	1,089	28	-	-	-	1,117
Construction in areas	4	18,730	-	-	(6,723)	12,011
	259,680	36,970	186	(936)	(1,904)	293,996
Accumulated depreciation						
	(4,432)	(298)	-	-	-	(4,730)
Land improvements	(44,870)	(2,480)	-	-	-	(47,350)
Buildings	(81,205)	(5,758)	(91)	66	-	(86,988)
Machinery and equipment	(5,483)	(721)	-	178	-	(6,026)
Motor vehicles	(15,245)	(3,631)	(49)	15	-	(18,910)
Furniture and fixtures	(842)	(78)	-	-	-	(920)
	(152,077)	(12,966)	(140)	259	-	(164,924)
Net book value	107,603					129,072

There is no mortgage on property, plant and equipment as of 31 December 2019 (31 December 2018: None).

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NOTE 12 - PROPERTY, PLANT AND EQUIPMENT (Continued)

Movements of property, plant and equipment and related accumulated depreciation for the year ended 31 December 2018 is as follows:

	1 January 2018	Additions	Currency translation differences	Disposal	Transfers	31 December 2018
Cost						
Land	37,457	-	-	-	-	37,457
Land improvements	12,355	13	-	(3,833)	48	8,583
Buildings	60,729	17	-	(2,368)	111	58,489
Machinery and equipment	110,616	7,953	258	(14,584)	2,327	106,570
Motor vehicles	9,608	1,117	-	(1,380)	-	9,345
Furniture and fixtures	38,938	5,095	105	(9,700)	3,705	38,143
Leasehold improvements	2,131	146	-	(1,188)	-	1,089
Construction in process	1,454	4,799	-	-	(6,249)	4
	273,288	19,140	363	(33,053)	(58)	259,680
Accumulated depreciation						
Land improvements	(7,962)	(303)	-	3,833	-	(4,432)
Buildings	(44,651)	(2,587)	-	2,368	-	(44,870)
Machinery and equipment	(90,556)	(5,046)	(156)	14,553	-	(81,205)
Motor vehicles	(5,403)	(719)	-	639	-	(5,483)
Furniture and fixtures	(21,911)	(2,650)	(80)	9,396	-	(15,245)
Leasehold improvements	(1,796)	(207)	-	1,161	-	(842)
	(172,279)	(11,512)	(236)	31,950	-	(152,077)
Net book value	101,009					107,603

The allocation of accumulated depreciation and amortisation for the year ended 31 December 2019 and 2018 is as follows:

	2019	2018
Research and development expenses	56,256	47,800
Cost of goods sold	5,995	5,924
Development projects in process	3,048	2,324
General administrative expenses	3,276	2,103
Depreciation on inventories	1,577	1,379
Selling and marketing expenses	959	1,203
Currency translation differences	140	236
Right of use of assets	8,187	-
Costs related to uncompleted contracts	-	39
	79,438	61,008

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NOTE 12 - PROPERTY, PLANT AND EQUIPMENT (Continued)

Right of use assets

During the year, the Group has capitalized on the right of use assets of TRY31,468. As of 31 December 2019, net book value of the right of use assets is TRY23,281. As of 31 December 2019, assets and accumulated depreciation amounts are as follows:

31 December 2019	Buildings	Motor vehicles	Furniture and fixture	Total
Cost	16,800	13,623	1,045	31,468
Accumulated depreciation	(2,767)	(5,217)	(203)	(8,187)
	14,033	8,406	842	23,281

NOTE 13 - INTANGIBLE ASSETS

Movements of intangible assets and related accumulated amortisation for the year ended 31 December 2019 are as follows:

	1 January 2019	Additions	Currency translation differences	Çıkışlar	Transferler	31 December 2019
Cost						
Other intangible assets	18,249	1,881	-	(213)	1,904	21,821
Development costs	427,570	-	-	-	115,039	542,609
Developments projects in progress	92,439	146,243	-	-	(115,039)	123,643
	538,258	148,124		(213)	1,904	688,073
Accumulated amortization						
Other intangible assets	(13,017)	(1,889)	-	213	-	(14,693)
Development costs	(244,585)	(56,256)	-	-	-	(300,841)
	(257,602)					(315,534)
Net book value	280,656	(58,145)		213		372,539

In 2019, the Group has capitalised TRY 8,684 thousand (31 December 2018: TRY 8,008 thousand) of its borrowing costs in relation to its qualifying assets.

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NOTE 13 - INTANGIBLE ASSETS (Continued)

For the year ended 31 December 2018, the movements of intangible assets and related amortization are as follows:

	1 January 2018	Additions	Disposals	Transferler	31 December 2018
Cost					
Other intangible assets	20,231	2,371	(4,411)	58	18,249
Development costs	345,703	167	-	81,700	427,570
Developments projects in progress	66,683	107,456	-	(81,700)	92,439
	432,617	109,994	(4,411)	58	538,258
Accumulated amortization					
Other intangible assets	(15,965)	(1,463)	4,411	-	(13,017)
Development costs	(196,788)	(47,797)	-	-	(244,585)
	(212,753)	(49,260)	4,411	-	(257,602)
Net book value	219,864				280,656

NOTE 14 - GOVERNMENT GRANTS AND INCENTIVES

	31 December 2019	31 December 2018
Short-term	314	1,283
Long-term	1,392	1,124
	1,706	2,407

Government incentives have been originated from deferral of research and development incentive premiums provided to support research and development expenditures of the Group's various projects by the Scientific & Technological Research Council of Turkey (TUBITAK). The related balance will be recognized as revenue in line with the amortization of the respective development costs.

NOTE 15 - PROVISIONS, CONTINGENT ASSETS AND LIABILITIES

Short-term provisions

	31 December 2019	31 December 2018
Provision for warranty expenses	77.897	43.778
Provision for Employee benefits (Note 16)	12.520	10.443
Other	57,088	50,060
	147,505	104,281

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NOTE 15 - PROVISIONS, CONTINGENT ASSETS AND LIABILITIES (Continued)

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 31 December 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
Additional provision	100,090	46,276
Claim payments	(65,971)	(55,563)
31 December	77,897	43,778

Commitments and contingencies

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

	31 December 2019	31 December 2018
a. Total amount of guarantees, pledges and mortgages given the name of legal entity	1,150,067	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	-	-
	1,150,067	1,379,859

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NOTE 15 - PROVISIONS, CONTINGENT ASSETS AND LIABILITIES (Continued)

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

	31 December 2019		31 December 2018	
	Original currency	TRY equivalent	Original currency	TRY equivalent
USD	151,597	900,516	201,235	1,058,679
EUR	22,452	149,317	46,295	279,068
TRY	91,779	91,779	42,112	42,112
Chinese Yuan	10,000	8,455	-	-
		1,150,067		1,379,859

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

	31 December 2019	31 December 2018
Guarantee letters given		
Under secretariat of Ministry of Defense	103,573	251,984
Other (*)	1,046,494	1,127,875
	1,150,067	1,379,859

(*) Other guarantee; consists of guarantees given to third parties for transactions such as public sales, tax office and customs procedures.

Guarantee letters

a) Guarantees given as of 31 December 2019 and 2018 are as follows:

	31 December 2019	31 December 2018
Bank letters of guarantee	1,150,067	1,379,859
	1,150,067	1,379,859

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

	31 December 2019	31 December 2018
Bank letters of guarantee	245,208	336,045
Guarantee notes	9,974	20,195
Mortgages received	4,020	20
	259,202	356,260

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NOTE 15 - PROVISIONS, CONTINGENT ASSETS AND LIABILITIES (Continued)

Contingent assets

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 appeal process ended in favor of the Group for 2011-2012-2013. The administration has sent an appeal to the Council of State to appeal the decision in favor of the Group and the appeal stage continues. The appeal process is still in progress for 2014-2015.

NOTE 16 - EMPLOYEE BENEFITS

	31 December 2019	31 December 2018
Provision for employment termination benefits	48,460	38,235
Provision for unused vacation	12,520	10,443
	60,980	48,678

Employment termination benefits

The amount payable consists of one month's salary limited to a maximum of TRY6,379.86 in full for each year of service as of 31 December 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.

Provision for employment termination benefits is calculated by estimating the present value of the probable obligation that the employees will have to pay in case of retirement.

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 real rate free of expected effects of inflation. The termination indemnity ceiling is revised semi-annually and the ceiling amounting to TRY6,730.15 in full (1 January 2019: TRY6,017.60 in full), which is effective from 1 January 2020, has been taken into consideration in calculation of retirement benefit provision in the consulate.

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:

	31 December 2019	31 December 2018
Net discount rate (%)	4.67	5.65
Turnover rate to estimate the probability of retirement (%)	97.66	96.76

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NOTE 16 - EMPLOYEE BENEFITS (Continued)

The movements of provision for employment termination benefits are as follows:

	2019	2018
1 January	38,235	31,693
Interest expense	3,460	2,868
Charge for the period	6,297	12,392
Remeasurement differences	7,890	(1,659)
Payments	(7,422)	(7,059)
31 December	48,460	38,235

Provision for unused vacation

The movements of provision for unused vacation are as follows:

	2019	2018
1 January	10,443	9,286
Charge for the period, net (Note 21)	2,077	1,157
31 December	12,520	10,443

NOTE 17 - PREPAID EXPENSES, DEFERRED REVENUE, OTHER ASSETS AND LIABILITIES

a) Prepaid expenses

	31 December 2019	31 December 2018
Prepaid expenses	8,646	7,470
	8,646	7,470

b) Other current assets

	31 December 2019	31 December 2018
Value added tax receivables	45,040	57,546
Other	963	3,377
	46,003	60,923

c) Deferred revenues – short-term

	31 December 2019	31 December 2018
Advances received	266,602	191,607
Deferred maintenance revenues	21,535	5,184
	288,137	196,791

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NOTE 17 - PREPAID EXPENSES, DEFERRED REVENUE, OTHER ASSETS AND LIABILITIES (Continued)

Deferred revenues - long term	31 December 2019	31 December 2018
Advance received	273,347	469,884
Deferred maintenance revenues	131,185	35,511
	404,532	505,395
d) Employee benefits obligation	31 December 2019	31 December 2018
Payables to employees	18,543	14,520
Social security payables	10,034	8,014
Taxes and funds payable	9,699	7,810
	38,276	30,344
e) Other current liabilities	31 December 2019	31 December 2018
Taxes and funds payable	3,700	13,688
Deferred special consumption tax	1,064	911
Payables to shareholders	318	105
Other	799	705
	5,881	15,409

NOTE 18 - EQUITY

Share Capital

As of 31 December 2019 and 2018, the principal shareholders and their respective shareholding percentages are as follows:

	31 December 2019		31 December 2018	
	TRY	(%)	TRY	(%)
Koç Holding A.Ş.	10,723	44.68	10,723	44.68
Ünver Holding A.Ş.	5,955	24.81	5,955	24.81
Other	7,322	30.51	7,322	30.51
	24,000	100.00	24,000	100.00
Inflation adjustment on equity items	52,743		52,743	
	76,743		76,743	

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO CONSOLIDATED YEARS ENDED FINANCIAL STATEMENTS AT 31 DECEMBER 2019

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

NOTE 18 – EQUITY (Continued)

The legal reserve consists of first and second legal reserves, allocated in accordance with the Turkish Commercial Code. The first legal reserve is allocated out of last period's statutory profits at the rate of 5% per annum until the total reserve reaches 20% of the paid-in share capital (not indexed to the inflation). The second legal reserve is allocated after the first legal reserve and dividends, at the rate of 10% per annum of all cash dividend distributions. The first and the second legal reserves are not available for distribution unless they exceed 50% of the share capital, but may be used to absorb losses in the event that the general reserve is exhausted.

Publicly traded companies enter into force as of 1 February 2014, dividend distributions according to the Communiqué No: II-19.1.

Companies distribute dividends in accordance with their dividend payment policies settled and dividend payment decision taken in general assembly and also in conformity with relevant legislations. The communiqué does not constitute a minimum dividend rate. Companies distribute dividend in accordance with the method defined in their dividend policy or articles of incorporation. In addition, dividend can be distributed by fixed or variable installments and advance dividend can be paid in accordance with profit on interim financial statements of the Group.

In accordance with the Turkish Commercial Code (TCC), unless the required reserves and the dividend for shareholders as determined in the article of association or in the dividend distribution policy of the company are set aside, no decision may be made to set aside other reserves, to transfer profits to the subsequent year or to distribute dividends to the holders of usufruct right certificates, to the members of the board of directors or to the employees; and no dividend can be distributed to these persons unless the determined dividend for shareholders is paid in cash

	31 December 2019	31 December 2018
Paid-in share capital	24,000	24,000
Inflation adjustment on equity items	52,743	52,743
Restricted reserves	73,770	66,678
Accumulated other comprehensive income and expense that is not subject to reclassification to income or loss	(9,741)	(3,586)
Accumulated other comprehensive income and expense that is subject to reclassification to income or loss	(12,380)	12,997
Retained earnings		
- Extraordinary reserves	146,712	61,468
- Inflation adjustments on legal reserves	10,950	10,950
Net income for the year	351,592	164,336
	637,646	389,586

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NOTE 18 – EQUITY (Continued)

As of 31 December 2019 and 2018, the restated amounts and the equity restatement differences of the aforementioned nominal values are as follows:

31 December 2019

	Historical value	Inflation adjustments on equity items	Restated value
Share capital	24,000	52,743	76,743
Legal reserves	73,770	10,950	84,720
	97,770	63,693	161,463

31 December 2018

	Historical value	Inflation adjustments on equity items	Restated value
Share capital	24,000	52,743	76,743
Legal reserves	66,678	10,950	77,628
	90,678	63,693	154,371

Historical value of legal and extraordinary reserves in the statutory financial statements are as follows:

	31 December 2019	31 December 2018
Legal reserves	73,770	66,678
Extraordinary reserves	94,618	48,350
	168,388	115,028
Dividends distributed during the year based on previous year's net income per statutory financial statements	72,000	70,000
Dividend paid per share (Kr)	0,300	0,292

The company's share capital is fully paid, and consists of 24,000,000,000 shares with piaster 0.1 per value each.

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO CONSOLIDATED YEARS ENDED FINANCIAL STATEMENTS AT 31 DECEMBER 2019

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NOTE 19 - REVENUE AND COST OF SALES

Net sales

	1 January - 31 December 2019	1 January - 31 December 2018
Domestic sales	495,401	595,707
Export sales	1,957,037	1,101,378
Gross sales	2,452,438	1,697,085
Less: sales discounts and returns	(21,795)	(18,424)
Net sales	2,430,643	1,678,661

Sales of the Group for the years ended 31 December 2019 and 2018 in terms of the products are as follows:

	1 January - 31 December 2019	1 January - 31 December 2018
Commercial vehicle	1,106,821	857,541
Armored vehicle	1,034,333	591,671
Accrued earnings related to construction contracts	-	23,896
Other sales (*)	289,489	205,553
	2,430,643	1,678,661

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

Cost of sales

	1 January - 31 December 2019	1 January - 31 December 2018
Cost of finished goods sold	(1,371,261)	(982,150)
Cost of merchandise goods sold	(140,331)	(103,554)
	(1,511,592)	(1,085,704)

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO CONSOLIDATED YEARS ENDED FINANCIAL STATEMENTS AT 31 DECEMBER 2019

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NOTE 20 - RESEARCH AND DEVELOPMENT EXPENSES, MARKETING AND GENERAL ADMINISTRATIVE EXPENSES

	1 January - 31 December 2019	1 January - 31 December 2018
Sales and marketing expenses	(387,524)	(285,053)
General administrative expenses	(120,006)	(91,886)
Research and development expenses	(59,061)	(50,481)
	(566,591)	(427,420)

NOTE 21 - EXPENSES BY NATURE

	1 January - 31 December 2019	1 January - 31 December 2018
Cost of raw material and consumption goods	1,301,930	854,610
Personnel expenses	260,518	234,802
Cost of merchandises sold	139,258	112,697
Warranty provision expense (Note 15)	100,090	46,276
Administrative expenses	84,142	63,255
Depreciation and amortization expense	73,379	58,448
Sales, incentives and premiums	40,858	64,741
Transportation, distribution and storage expenses	39,602	27,436
Operational expenses	36,538	33,630
Advertising, promotion and promotion costs	26,900	21,511
Change in finished and semi-finished goods	(113,840)	(94,443)
Other expenses	88,808	90,161
	2,078,183	1,513,124

The breakdown of personnel expenses for the years 2019 and 2018 is as follows:

	1 January - 31 December 2019	1 January - 31 December 2018
Based on the account it's recorded:		
Cost of sales and inventories on hand	134,246	114,268
Sales and marketing expenses	71,458	65,582
Capitalized development expenditures	74,086	50,513
General administrative expenses	52,010	32,511
Costs related to uncompleted contracts	-	19,757
Research and development expenses	2,804	2,684
	334,604	285,315

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NOTES TO CONSOLIDATED YEARS ENDED FINANCIAL STATEMENTS AT 31 DECEMBER 2019

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

NOTE 21 - EXPENSES BY NATURE (Continued)

	1 January - 31 December 2019	1 January - 31 December 2018
By nature:		
Wages and salaries	266,084	220,260
Social security premiums	30,657	26,879
Other social benefits	23,428	19,481
Provision for employment termination benefits	9,845	15,603
Provision for vacation pay liability	2,077	1,157
Other	2,513	1,935
	334,604	285,315

NOTE 22 - OTHER OPERATING INCOME AND EXPENSES

	1 January - 31 December 2019	1 January - 31 December 2018
Other operating income		
Foreign exchange gains on operating activities	167,600	235,978
Gain on forward transactions	64,812	53,126
Revenue from charge of due date receivables	23,163	30,255
Incentives income	1,477	1,940
Other	27,611	23,402
	284,663	344,701

	1 January - 31 December 2019	1 January - 31 December 2018
Other operating expenses		
Foreign exchange loss on operating activities	(139,400)	(241,979)
Loss on forward transactions	(29,985)	(27,027)
Provision for doubtful receivables (Note 8)	(3,705)	(9,485)
Other	(87)	(335)
	(173,177)	(278,826)

NOTE 23 - FINANCIAL INCOME

	1 January - 31 December 2019	1 January - 31 December 2018
Foreign exchange gains on bank borrowings	18,786	13,265
Foreign exchange gains on deposits	13,997	28,649
Interest income from time deposits	1,887	3,977
	34,670	45,891

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NOTE 24 - FINANCIAL EXPENSES

	1 January - 31 December 2019	1 January - 31 December 2018
Interest expense on bank borrowings	(129,217)	(120,609)
Foreign exchange losses on bank borrowings	(44,523)	(30,547)
Foreign exchange losses on deposits	(16,071)	(14,426)
Other	(2,766)	(304)
	(192,577)	(165,886)

NOTE 25 - TAX ASSETS AND LIABILITIES

The company is subject to taxation in accordance with the tax regulation and the legislation effective in Turkey. Otokar SAS Europe is subject to taxation in accordance with the tax regulation and the legislation effective in France.

In Turkey, the corporation tax rate is 22% (2018: 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.

Corporate tax losses can be carried forward for a maximum period of 5 years following the year in which the losses were incurred. The tax authorities can inspect tax returns and the related accounting records for a retrospective maximum period of five years.

15% withholding applies to dividends distributed by resident real persons, those who are not liable to income and corporation tax, non-resident real persons, non-resident corporations (excluding those that acquire dividend through a permanent establishment or permanent representative in Turkey) and non-resident corporations exempted from income and corporation tax. Dividend distribution by resident corporations to resident corporations is not subject to a withholding tax. Furthermore, in the event the profit is not distributed or included in capital, no withholding tax shall be applicable.

Research and development incentive rate which will be calculated over the research and development expenditures, is raised to 100% from 40% with the amendment made to the 10th article of the Tax Law numbered 5520 as a result of the amendment in the 35th article of the Law 5746 related to the Support of Research and Development Operations.

The aforementioned law has been enacted as of April 1, 2008. Accordingly, income tax-payers can deduct 100% of the expenditures made as of then, which are related to research and development related to new technology and information developments. Research and development incentives shall be calculated over the total expenditures made in 2018 and 2017.

As a result of its research and development expenditures made in 2019 amounting to TRY115,358 thousand (2018: TRY328,546 thousand). The Group has utilized research and development incentives at 100% deduction without any withholding tax. The company has an R&D center certificate.

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO CONSOLIDATED YEARS ENDED FINANCIAL STATEMENTS AT 31 DECEMBER 2019

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NOTE 25 - TAX ASSETS AND LIABILITIES (Continued)

As of 31 December 2019 and 2018, income tax payables are presented net of prepaid taxes in the balance sheet as follows::

	31 December 2019	31 December 2018
Income tax payable	4,960	632
Prepaid taxes (-)	(4,960)	(65)
	-	567

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

	31 December 2019	31 December 2018
Current tax charge	(4,960)	(632)
Deferred tax income / expense reflected in profit or loss		
Charged to profit for the period	10,198	43,823
Charged to other comprehensive income	1,735	(365)
	6,973	42,826

The reconciliation of profit before tax to total tax expense is as follows:

	1 January - 31 December 2019	1 January - 31 December 2018
Profit before tax	346,354	121,145
Income tax charge at effective tax rate 22%	(76,198)	(26,652)
Disallowable expenses	(11,895)	(7,527)
Discounts and exceptions	72,789	73,621
Tax effect on gain on investments accounted for using the equity method	8,750	2,680
Impact of foreign companies subject to different tax rates	8,464	2,702
Other	3,328	(1,998)
	5,238	42,826

In accordance with the regulation numbered 7061, published in Official Gazette on 5 December 2017, "Law on the Amendment of Some Tax Acts and Some Other Laws", corporate tax rate for the years 2018, 2019 and 2020 has increased from 20% to 22%. Therefore, deferred tax assets and liabilities as of 31 December 2017 are calculated with 22% tax rate for the temporary differences which will be realized in 2018, 2019 and 2020, and with 20% tax for those which will be realized after 2021 and onwards.

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NOTE 25 - TAX ASSETS AND LIABILITIES (Continued)

As of 31 December 2019 and 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)	
	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Incentives from research and development activities (*)	314,365	334,643	69,160	73,621
Property, plant and equipment	(27,051)	(19,389)	(1,929)	(396)
Intangible assets	(103,649)	(71,733)	(20,730)	(14,347)
Deferred financial expenses	(1,323)	(1,410)	(291)	(310)
Inventories	10,027	6,519	2,195	1,424
Warranty provision	77,897	43,778	16,226	9,403
Provision for employment termination benefits	48,460	38,235	9,692	7,647
Deferred financial income	(2,134)	880	(470)	194
Other provisions	49,968	54,726	10,283	11,198
Deferred maintenance income	145,908	41,876	24,435	6,511
Due from customers on contract works	-	-	-	-
Other	(32,061)	(24,019)	(6,574)	(4,881)
Deferred tax assets, net			101,997	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 31 December 2019, the tax advantage of TRY314,365 thousand (31 December 2018: TRY334,643 thousand), which the company will use in the foreseeable future, has been recognized in the consolidated financial statements as deferred tax asset. The deferred tax asset on tax advantage carried from 2015 and before has not been calculated since the case regarding the use of tax benefit of TRY164,801 thousand for aforementioned years is still in progress.

The movement of deferred tax asset for the years ended 31 December 2019 and 2018 are as follows:

	2019	2018
1 January	90,064	46,606
Deferred tax income		
charged to profit for the period	10,198	43,823
Charged to other comprehensive income	1,735	(365)
31 December	101,997	90,064

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NOTE 26 - 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.

	31 December 2019	31 December 2018
Net income attributable to shareholders (TRY)	351,592	164,336
Weighted average number of issued shares	24,000,000,000	24,000,000,000
Earnings per share (Piastre)	1.465	0,685

NOTE 27 - RELATED PARTY DISCLOSURES

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

i) Due from and due to related party balances as of 31 December 2019 and 2018:

Due from related parties	31 December 2019	31 December 2018
Ram Dış Ticaret A.Ş. (1) (*)	138,537	271,758
Al Jasoore Heavy Vehicles Industry LLC (3) (**)	81,303	126,822
Türk Traktör ve Ziraat Makineleri A.Ş. (1)	60	-
Ford Otosan A.Ş. (1), (2)	-	464
	219,900	399,044

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

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

Due to related parties	31 December 2019	31 December 2018
Koç Holding A.Ş. (2)	11,787	7,083
Zer Merkezi Hizmetler A.Ş. (1)	4,914	5,836
Ram Dış Ticaret A.Ş. (1)	4,400	6,916
Koç Sistem Bilgi ve İletişim Hiz. A.Ş. (1)	3,803	931
Setur Servis Turistik A.Ş. (1)	1,573	1,245
Otokoç Otomotiv Tic. ve San. A.Ş. (1)	830	788
Opet Fuchs Madeni Yağ A.Ş. (1)	479	-
Türk Traktör ve Ziraat Makineleri A.Ş.(1)	-	707
Other (1)	1,945	1,840
	29,731	25,346

(1) Related parties of the parent company

(2) Shareholder

(3) Joint venture

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NOTE 27 - RELATED PARTY DISCLOSURES (Continued)

Advances received from related parties	31 December 2019	31 December 2018
Al Jasoor Heavy Vehicles Industry LLC (3) (*)	527,169	652,617
	527,169	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.

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

Sales of products and services	1 January - 31 December 2019	1 January - 31 December 2018
Al Jasoor Heavy Vehicles Industry LLC (3)	810,709	172,279
Ram Dış Ticaret A.Ş. (1) (*)	253,240	407,999
Other (1)	173	239
	1,064,122	580,517

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

Fixed asset purchases	1 January - 31 December 2019	1 January - 31 December 2018
Koç Sistem Bilgi ve İletişim Hiz. A.Ş. (1)	2,748	2,288
Otokoç Otomotiv Tic. ve San. A.Ş. (1)	192	167
Ingage Dijital (1)	92	-
Zer Merkezi Hizmetler A.Ş. (1)	47	117
Other (1)	24	20
	3,103	2,592

Inventory purchases	1 January - 31 December 2019	1 January - 31 December 2018
Zer Merkezi Hizmetler A.Ş. (1)	42,044	37,505
Ram Dış Ticaret A.Ş. (1)	5,203	7,904
Opet Petrolcülük A.Ş. (1)	3,493	3,761
Opet Fuchs Madeni Yağ A.Ş. (1)	3,173	2,321
Akpa Dayanıklı Tük. Paz. A.Ş. (1)	2,633	2,359
Türk Traktör ve Ziraat Makineleri A.Ş.(1)	2,196	625
Other (1)	574	209
	59,316	54,684

- (1) Related parties of the parent company
 (2) Shareholder
 (3) Joint venture

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NOTE 27 - RELATED PARTY DISCLOSURES (Continued)

Service purchases	1 January - 31 December 2019	1 January - 31 December 2018
Ram Dış Ticaret A.Ş. (1)	65,582	39,615
Setur Servis Turistik A.Ş. (1)	11,644	10,036
Koç Sistem Bilgi ve İlt. Hiz. A.Ş. (1)	9,507	7,159
Otokoç Otomotiv Tic. ve San. A.Ş. (1)	6,695	5,846
Ram Sigorta Aracılık Hiz. A.Ş. (1) (**)	6,496	5,027
Koç Holding A.Ş. (2) (*)	5,339	9,509
Ingage Dijital (1)	1,689	613
Eltek Elektrik Enerji İth. İhr. Top. Tic. A.Ş. (1)	-	1,132
Other (1)	3,864	2,626
	110,816	81,563

(*) 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.

(**) It includes paid and accrued premium as of 31 December 2019 in accordance with insurance policies signed between insurance companies via Ram Sigorta Aracılık Hizmetleri A.Ş. which is an insurance agency.

Banks deposits	31 December 2019	31 December 2018
Yapı ve Kredi Bankası A.Ş. (1)		
- Time deposits	4,510	15,631
- Demand deposits	2	471
	4,512	16,102

Checks and notes in collection	31 December 2019	31 December 2018
Yapı ve Kredi Bankası A.Ş. (1)	1,921	2,662
	1,921	2,662

(1) Related parties of the parent company

(2) Shareholder

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO CONSOLIDATED YEARS ENDED FINANCIAL STATEMENTS AT 31 DECEMBER 2019

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NOTE 27 - RELATED PARTY DISCLOSURES (Continued)

For the years ended 31 December 2019 and 2018, financial income and expense with related parties are as follows:

	1 January - 31 December 2019	1 January - 31 December 2018
Trade receivables and payables		
foreign exchange gains		
Ram Dış Ticaret A.Ş. (1)	87,282	42,596
Yapı ve Kredi Bankası A.Ş. (1)	4,018	9,193
Other (1)	290	338
	91,590	52,127
Trade receivables and payables		
foreign exchange expenses		
Ram Dış Ticaret A.Ş. (1)	32,482	16,345
Yapı ve Kredi Bankası (1)	7,470	7,861
Zer Merkezi Hizmetler A.Ş. (1)	456	1,003
Other (1)	14	48
	40,422	25,257
Interest income		
Yapı ve Kredi Bankası A.Ş. (1)	269	431
	269	431
Interest expense		
Yapı ve Kredi Bankası A.Ş. (1)	16,009	214
	16,009	214

(1) Related parties of the parent company

Benefits provided to senior executives

For the year ended 31 December 2019, the total amount of benefits provided to senior management is TRY19,044 thousand (31 December 2018: TRY 17,518 thousand). TRY 1,400 thousand of this amount is related to the payments made due to separation (31 December 2018: None) and the remaining part consists of short term benefits. It consists of senior managers, board members, general manager and deputy general managers.

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO CONSOLIDATED YEARS ENDED FINANCIAL STATEMENTS AT 31 DECEMBER 2019

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

NOTE 28 - NATURE AND LEVEL OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

The Group is exposed to a variety of financial risks, including the effects of changes in debt and equity market prices, foreign currency exchange rates and interest rates. These risks are market risk (including foreign currency risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the financial performance of the Group.

Credit risk

Ownership of financial assets involves the risk that counterparties may be unable to meet the terms of their agreements. These risks are monitored by limiting the aggregate risk from any individual counterparty (excluding related parties) and by receiving guarantees from customers when considered necessary. Credit risk of the Group mainly arises from trade receivables. The Group manages this risk that may arise from its dealers or from other customers by restricting the credit limits determined for the dealers according to the amount of guarantees received, by receiving advance payments or by receiving the pledge of ownership of the vehicles sold. Credit limits are regularly monitored by the Group and the customers' credit quality are regularly evaluated by considering the customer's financial position, past experiences and other factors. All foreign sales are made after receiving confirmed letters of credit. Military vehicle sales are made to domestic or foreign governmental institutions or to companies acting as agents to these institutions; accordingly, the Group does not anticipate any collection risk related to military vehicle sales. Trade receivables are evaluated by management based on their past experiences and current economic condition, and are presented in financial statements net of provision for doubtful receivables (Note 8).

31 December 2019	Receivables			
	Trade receivables	Other	Bank deposits	Derivative instruments
Maximum credit risk exposure as of reporting date (A+B+C+D+E) (1)	947,619	1,344	222,722	-
- Maximum risk secured by guarantee (2)	189,378	-	-	-
A. Net book value of financial assets neither overdue nor impaired	946,222	1,344	222,722	-
B. Net book value of financial assets of which conditions are negotiated, otherwise considered as impaired or overdue	-	-	-	-
C. Net book value of assets overdue but not impaired	270	-	-	-
D. Net book value of impaired assets	1,127	-	-	-
- Overdue (gross book value)	47,828	-	-	-
- Impairment (-) (Note 8)	(46,701)	-	-	-
- Net value under guarantee	1,127	-	-	-
- Not overdue (gross book value)	-	-	-	-
- Impairment (-)	-	-	-	-
- Net value under guarantee	-	-	-	-
E. Off - balance sheet items having credit risk	-	-	-	-

(1) Guarantees received and factors increasing the loan reliability are not considered when determining this amount.

(2) Guarantees consist of guarantee notes, guarantee checks, mortgages and car pledges received from customers.

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO CONSOLIDATED YEARS ENDED FINANCIAL STATEMENTS AT 31 DECEMBER 2019

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

NOTE 28 - NATURE AND LEVEL OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (Continued)

31 December 2018	Receivables			
	Trade receivables	Other	Bank deposits	Derivative instruments
Maximum credit risk exposure as of reporting date (A+B+C+D+E) (1)	878,387	1,011	172,262	297
- Maximum risk secured by guarantee (2)	(186,069)	-	-	-
A. Net book value of financial assets neither overdue nor impaired	877,043	1,011	172,262	-
B. Net book value of financial assets of which conditions are negotiated, otherwise considered as impaired or overdue	-	-	-	-
C. Net book value of assets overdue but not impaired	255	-	-	-
D. Net book value of impaired assets	1,089	-	-	-
- Overdue (gross book value)	44,601	-	-	-
- Impairment (-) (Note 8)	(43,512)	-	-	-
- Net value under guarantee	1,089	-	-	-
- Not overdue (gross book value)	-	-	-	-
- Impairment (-)	-	-	-	-
- Net value under guarantee	-	-	-	-
E. Off - balance sheet items having credit risk	-	-	-	-

(1) Guarantees received and factors increasing the loan reliability are not considered when determining this amount.

(2) Guarantees consist of guarantee notes, guarantee checks, mortgages and car pledges received from customers.

Liquidity risk

Prudent liquidity risk management includes maintaining sufficient cash and marketable securities, the availability of funding from an adequate amount of committed credit facilities and the ability to close out market positions.

The ability to fund existing and prospective debt requirements are managed by maintaining the availability of adequate committed funding lines from high quality lenders.

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO CONSOLIDATED YEARS ENDED FINANCIAL STATEMENTS AT 31 DECEMBER 2019

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

NOTE 28 - NATURE AND LEVEL OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (Continued)

As of 31 December 2019 and 2018, maturities of gross trade payables and financial liabilities are as follows:

31 December 2019

Maturities per agreements	Book value	Total cash outflow per agreements (=I+II+III+IV)	Less than 3 month (I)	Between 3-12 month (II)	Between 1-5 years (III)	Over 5 years (IV)
Non-derivative financial liabilities						
Bank borrowings	777,377	868,717	300,576	134,389	433,752	-
Trade payables	256,191	257,532	257,020	512	-	-
Expected maturities	Book value	Total expected cash outflow	Less than 3 month	Between 3-12 month	Between 1-5 years	Over 5 years
Non-derivative financial liabilities						
Other payables	46,434	18,946	18,946	-	-	-
Other short-term liabilities	5,881	5,881	5,881	-	-	-
Expected (or maturities per agreement)	Book value	Total expected cash outflow	Less than 3 month	Between 3-12 month	Between 1-5 years	Over 5 years
Derivative financial liabilities (net)	(1,100)	(1,100)	(1,100)	-	-	-
Derivative cash inflows	(305,689)	(305,689)	(305,689)	-	-	-
Derivative cash outflows	(306,789)	(306,789)	(306,789)	-	-	-

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO CONSOLIDATED YEARS ENDED FINANCIAL STATEMENTS AT 31 DECEMBER 2019

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

NOTE 28 - NATURE AND LEVEL OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (Continued)

31 December 2018

Maturities per agreements	Book value	Total cash outflow per agreements (=I+II+III+IV)	Less than 3 month (I)	Between 3-12 month (II)	Between 1-5 years (III)	Over 5 years (IV)
Non-derivative financial liabilities						
Bank borrowings	707,547	845,890	238,036	85,598	522,256	-
Trade payables	269,459	270,889	270,483	406	-	-
Expected maturities	Book value	Total expected cash outflow	Less than 3 month	Between 3-12 month	Between 1-5 years	Over 5 years
Non-derivative financial liabilities						
Other payables	43,292	14,693	14,693	-	-	-
Other short-term liabilities	15,409	15,409	15,409	-	-	-
Expected (or maturities per agreement)	Book value	Total expected cash outflow	Less than 3 month	Between 3-12 month	Between 1-5 years	Over 5 years
Derivative financial liabilities (net)	297	297	297	-	-	-
Derivative cash inflows	470,301	470,301	470,301	-	-	-
Derivative cash outflows	(470,004)	(470,004)	(470,004)	-	-	-

Market risk**a) Foreign currency risk and related sensitivity analysis**

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

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO CONSOLIDATED YEARS ENDED FINANCIAL STATEMENTS AT 31 DECEMBER 2019

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

NOTE 28 - 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:

31 December 2019	TRY equivalent (functional currency)	USD	EUR	GBP
1. Trade receivables	760,010	29,718	87,717	14
2a. Monetary financial assets (including cash, bank accounts)	19,717	2,877	395	-
2b. Non-monetary financial assets	-	-	-	-
3. Other	24	4	-	-
4. Current assets (1+2+3)	779,751	32,599	88,112	14
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)	779,751	32,599	88,112	14
10. Trade payables	(147,618)	(14,402)	(9,218)	(98)
11. Financial liabilities	(140,487)	-	(21,124)	-
12a. Monetary other liabilities	(244,327)	(40,940)	(138)	(28)
12b. Non-monetary other liabilities	-	-	-	-
13. Current liabilities (10+11+12)	(532,432)	(55,342)	(30,480)	(126)
14. Trade payables	-	-	-	-
15. Financial liabilities	(133,012)	-	(20,000)	-
16a. Monetary other liabilities	(152,983)	(25,754)	-	-
16b. Non-monetary other liabilities	-	-	-	-
17. Non-current liabilities (14+15+16)	(285,995)	(25,754)	(20,000)	-
18. Total liabilities (13+17)	(818,427)	(81,096)	(50,480)	(126)
Net balance sheet position (9+18)	(38,676)	(48,497)	37,632	(112)
19. Net asset/(liability) position of off-balance sheet derivative instruments(19a-19b)	49,641	51,461	(38,500)	-
19a. Hedged total assets amount	305,689	51,461	-	-
19b. Hedged total liabilities amount	(256,048)	-	(38,500)	-
20. Net foreign currency asset/(liability) position (9+18+19)	10,965	2,964	(868)	(112)
21. Net foreign currency asset/(liability) position of monetary items (=1+2a+5+6a-10-11-12a-14-15-16a)	(38,701)	(48,501)	37,632	(112)
22. Total fair value of financial instruments used for foreign currency hedging	1,100	-	851	249
23. Export	1,945,041	177,305	86,860	2,417
24. Import	630,817	46,815	56,233	1,110

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO CONSOLIDATED YEARS ENDED FINANCIAL STATEMENTS AT 31 DECEMBER 2019

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

NOTE 28 - 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	1,092,424	90,564	83,810	529
24. Import	639,474	58,468	59,705	1,048

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO CONSOLIDATED YEARS ENDED FINANCIAL STATEMENTS AT 31 DECEMBER 2019

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

NOTE 28 - 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 31 December 2019 and 2018:

31 December 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	1,761	(1,761)
2- Amount hedged for USD risk (-)	-	-
3- USD net effect (1+2)	1,761	(1,761)
<i>In case 10% appreciation of EUR against TRY:</i>		
4- EUR net asset/liability	(577)	577
5- Amount hedged for EUR risk (-)	-	-
6- EUR net effect (4+5)	(577)	577
<i>In case 10% appreciation of GBP against TRY</i>		
7- GBP net asset/liability	(87)	87
8- Amount hedged for GBP risk (-)	-	-
9- GBP net effect (7+8)	(87)	87
Total (3+6+9)	1,097	(1,097)
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)
Toplam (3+6+9)	1,633	(1,633)

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO CONSOLIDATED YEARS ENDED FINANCIAL STATEMENTS AT 31 DECEMBER 2019

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

NOTE 28 - NATURE AND LEVEL OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (Continued)

b) Interest position table and related sensitivity analysis

Interest rate risk

As the Group has no significant interest-bearing assets, the Group's income and operating cash flows are not substantially subject to changes in market interest rates.

The Group's interest rate risk arises from short-term borrowings and time deposits. The Group has obtained fixed rate bearing borrowings and time deposits. However the borrowings and time deposits that the Group is going to obtain in future will be affected from future interest rates.

As of 31 December 2019 and 2018, the financial liabilities of the Group are consisted of fixed rate bank borrowings.

Capital risk management

The company's objectives when managing capital are to safeguard the company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

Consistent with other companies in the industry, the company monitors capital on the basis of the gearing factor. This factor is calculated as net financial liability divided by total capital. Net financial liability is calculated as total borrowings (including borrowings as shown in balance sheet) less cash and cash equivalents.

	31 December 2019	31 December 2018
Total financial liability	801,849	707,547
Less: cash and cash equivalents (Note 4)	(222,722)	(173,017)
Net financial liability	579,127	534,530
Total equity	637,646	389,586
Financial debt/shareholders' equity factor	91%	137%

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO CONSOLIDATED YEARS ENDED FINANCIAL STATEMENTS AT 31 DECEMBER 2019

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

NOTE 29 - 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 31 December 2019 and 2018:

31 December 2019

Liabilities	Level 1	Level 2	Level 3	Total
Derivative financial instruments	-	1,100	-	1,100
	-	1,100	-	1,100

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.

NOTE 30 - SUBSEQUENT EVENTS

None.

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

INFORMATION DOCUMENT CONCERNING THE GENERAL ASSEMBLY TO CONVENE ON 16.03.2020 TO REVIEW 2019

1. INVITATION TO THE ORDINARY GENERAL ASSEMBLY ON 16.03.2020

The Ordinary General Assembly will convene to review 2019 activities of the company and to discuss the agenda detailed below on 16.03.2020 Monday, at the Divan İstanbul Hotel, Asker Ocağı Cad. No: 1, Elmadağ, Şişli, İstanbul (Phone: 0 212 315 55 00) at 10:00 am.

Financial Statements related to year 2019, Independent Audit Report, Dividend Distribution Proposal, Annual Report with its attached Corporate Governance Compliance Report and the detailed Information Sheet that includes required explanations for compliance with the Capital Markets Board Regulations shall be ready for esteemed shareholders to examine, within the legal period of 3 weeks before the Annual General Meeting at head office of the company, at corporate website www.otokar.com.tr and the Electronic Annual General Meeting System of Central Registry Agency.

The shareholders who will not personally participate to Annual General Meeting, provided that the rights and obligations of shareholders who will participate electronically are reserved, must submit their letter of attorney to the company according to the file enclosed or must provide a copy of letter of attorney through Yapı Kredi Yatırım Menkul Değerler A.Ş. (Yapı Kredi Plaza / Levent-İstanbul), through related departments of our company or through our corporate website at www.otokar.com.tr and accordingly must submit the letter of attorney of which sign is approved by a notary, by also performing the cases that are foreseen in "Communiqué on Voting by Proxy and Proxy Solicitation", no.II-30.1, which is published in official gazette on 24.12.2013, law no:28861. The Proxy who is assigned by electronically through Electronic General Meeting System does not need to submit a letter of attorney. **The letter of attorneys that are not suitable with the compelled one in the Communiqué and are not suitable with the attached one, will definitely not be accepted due to our legal responsibility.**

Shareholders intending to vote via the Electronic General Meeting System are requested to obtain information from the Central Registry Agency, our company's website at www.otokar.com.tr or from the company Headquarters (Tel:0 216 229 22 44) to ensure that they comply with the provisions of the by-laws for the Electronic Shareholders Meeting in accordance with the related regulations and Communiqué.

Pursuant to New Turkish Commercial Code no.6102 article 415 clause 4 and Capital Markets Law article 30 clause 1, the participation to Annual General Meeting right and the voting right are not connected with the condition of deposit of the shares. Within this scope, in the case of a wish to participate in the General Meeting, our shareholders do not need to block their shares.

In accordance with the Law No. 6698 on Protection of Personal Data, the detailed information about processing personal data by our company can be obtained from Personal Data Protection and Processing Policy of Otokar Otomotiv ve Savunma Sanayi A.Ş. which is shared with public on www.otokar.com.tr

At the Ordinary General Assembly Meeting, the voters shall use open voting system by raising hands, without prejudice to the provisions of electronic voting regarding the voting of each item on the agenda.

All right holders and stakeholders as well as the press are invited to the General Assembly Meeting.

Pursuant to the Capital Markets Law, shareholders holding registered shares that are traded on the stock exchange will not receive a separate registered invitation letter for the meeting.

It is submitted to the esteemed shareholders with due respect.

BOARD OF DIRECTORS OF OTOKAR OTOMOTİV VE SAVUNMA SANAYİ A.Ş.

Headquarters Address: Aydınevler Mahallesi, Saygı Caddesi No:58 34854 Maltepe – İstanbul

Trade Registry and Number: İstanbul – 83467

Central Registration No: 0649001827200034

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

INFORMATION DOCUMENT CONCERNING THE GENERAL ASSEMBLY TO CONVENE ON 16.03.2020 TO REVIEW 2019

2. OUR ADDITIONAL DISCLOSURES IN ACCORDANCE WITH CMB REGULATIONS

The required additional disclosures pursuant to Capital Market Board's (CMB) "Corporate Governance Communiqué" numbered II-17.1 are provided below the following agenda topics, and other mandatory general disclosures are presented for your information in this section:

2.1. Shareholding Structure and Voting Rights

There are no privileges in our company's Articles of Association pertaining to the exercise of voting rights. The voting rights of our shareholders are presented in the table below:

Shareholder	Amount of Shares (TL)	Stake (%)	Voting Right	Voting Right (%)
Koç Holding A.Ş.	10,722,749.81	44,68	1,072,274,980.90	44,68
Ünver Holding A.Ş.	5,954,943.83	24,81	595,494,383.00	24,81
Other	7,322,306.35	30,51	732,230,636.10	30,51
Total	24,000,000.00	100,00	2,400,000,000.00	100,00

Main shareholder Koç Holding A.Ş. is controlled by Koç Family and the companies that Koç Family owns. company's shareholder Ünver Holding A.Ş., is controlled by Ünver Family

2.2. Changes in the Management or Activities of the Company that may Materially Affect the Activities of the Company & the Subsidiaries

Information on changes in the management or activities that have occurred in the previous accounting period of our company and the subsidiaries or that may materially affect its activities planned for the coming accounting periods, and the reasons for such changes, are provided below:

Within the framework of our strategic targets as Otokar Otomotiv ve Savunma Sanayi A.Ş., there were no changes in the management or activities, which could materially affect the activities of the company during 2019. No changes in management and activities are planned for upcoming accounting periods. Material disclosures made by our company within the scope of the relevant legislation can be found at www.kap.org.tr.

2.3. Information concerning the Requests of Shareholders for Inclusion of an Issue in the Agenda

Information on shareholders' written requests submitted to the Investor Relations Department for inclusion of a topic in the agenda, rejected requests and reasons for rejections in the event that the board of directors did not accept such requests are provided below:

No such requests were received for the Ordinary General Assembly where the 2019 activities will be discussed.

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

INFORMATION DOCUMENT CONCERNING THE GENERAL ASSEMBLY TO CONVENE ON 16.03.2020 TO REVIEW 2019

3. OUR REMARKS ON THE AGENDA TOPICS OF THE ORDINARY GENERAL ASSEMBLY ON 16.03.2020

1. Opening and election of the Chairmanship Committee

The election of the Chairman who will preside the Ordinary General Assembly will be carried out in accordance with the provisions of the "Turkish Commercial Code No. 6102" (TCC) and the "Regulation on the Procedures and Principles Applicable to Ordinary General Assemblies of Joint Stock Companies and the Representatives of the Ministry of Customs and Commerce to Attend Ordinary General Assembly" (the "Regulation" or the "General Assembly Regulation"), and article 7 of the General Assembly Internal Directive. The Chairman of the General Assembly will appoint at least one Secretary to record the minutes of the meeting in accordance with the General Assembly Internal Directive. The Chairman may also select sufficient number of vote collectors.

2. Presentation for discussion and approval of the 2019 Annual Report of the Company as prepared by the Board of Directors

Information on the 2019 Annual Report that also contains the corporate governance principles compliance report, which was made available to shareholders for review at the company's Head Office, on the Electronic General Assembly portal of the Central Registry Agency and on our company's website at www.otokar.com.tr for three weeks preceding the Ordinary General Assembly, in accordance with the TCC, the Regulation and the regulations concerning the Capital Markets Law will be provided, and the 2019 Annual Report will be presented for discussion by and approval of the shareholders.

3. Presentation of the summary of the Independent Audit Report for the 2019 fiscal year

Information concerning the Independent Auditor's Report which prepared pursuant to the regulations of the Capital Markets Board and the TCC and posted three weeks prior to the General Assembly meeting at company's Head Office, on the Electronic General Assembly portal of the Central Registry Agency and on our company's website at www.otokar.com.tr, will be presented to the General Assembly and to our shareholders' view and approval.

4. Reading, discussion and approval of the Financial Statements of the Company for the 2019 fiscal year

Information concerning our financial statements and statutory financial statements issued in accordance with Tax Procedure Law that were made available to shareholders for their review at the company's Head Office, on the Electronic General Assembly portal of the Central Registry Agency and on our company's website at www.otokar.com.tr for three weeks preceding the Ordinary General Assembly pursuant to the TCC, the Regulation and the regulations concerning the Capital Markets Law will be presented for discussion and approval of the shareholders.

5. Release of each member of the Board of Directors from liability for the affairs of the Company in 2019

Release of the members of the Board of Directors in respect of the activities, transactions and accounts in 2019 as per the provisions of the TCC and the Regulation will be presented to the approval of the General Assembly.

6. Approval, approval with modifications, or refusal of the Board of Directors' proposal prepared in accordance with the Company's profit distribution policy and pertaining to the date and issuance of profit distribution

According to the financial statements for the accounting period of 01.01.2019-31.12.2019 prepared in compliance with the International Financial Reporting Standards in accordance with the provisions of Turkish Commercial Code and Capital Market Law, and audited by PwC Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş., the company has earned a "Consolidated Net Profit in the Period" amounting to TRY 351.591.603. The table regarding our profit distribution proposal, which was prepared by taking into account our Profit Distribution Policy, long-term group strategies, investment and financing policies, and the profitability and liquidity position in line with the Profit Distribution Communiqué II-19.1 and the Profit Distribution Guidelines announced in accordance with this Communiqué is provided in **ATTACHMENT/1**.

7. Resolution of the number of the members of the Board of Directors and their terms of office, and election of the members of the Board of Directors in accordance with the resolved number and election of the independent members of the Board of Directors

New members will be elected to take the place of the existing members of the Board of Directors whose office term has ended in accordance with the principles applicable to the election of the members of the Board of Directors as set forth

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in the company's articles of association pursuant to CMB regulations, the TCC and the relevant regulations. In addition, independent member(s) will be elected to the Board in order to ensure compliance with CMB's Corporate Governance Communiqué II-17.1.

Pursuant to article 11 of the articles of association, the company is managed by a Board of Directors formed by minimum 5 (five) members who are elected for maximum 3 years by the General Assembly as per the provisions of the Turkish Commercial Code. The General Assembly may resolve to renew the Board of Directors even if its office term has not yet ended.

Three of the nominees for membership to the Board of Directors, which is proposed to consist of eight members, must meet the criteria of independency as defined in CMB's mandatory Corporate Governance Principles.

Upon the proposal of the Corporate Governance Committee, which has evaluated the candidates presented to it, Mr. Ali İhsan İlkbahar, Mr. Ali İhsan Kamanlı and Mr. Kenan Güven were nominated by the Board of Directors as Independent Members of the Board of Directors. Our Company has been notified that there is no negative opinion about the Independent Board Members by the letter of CMB dated 07.02.2020.

The curriculum vitae of the nominees for the Board of Directors and the declarations of independence of the independent members are provided in **ATTACHMENT/2**.

8. Presentation to the shareholders and approval by the General Assembly, of the "Remuneration Policy" for the members of the Board of Directors and the Senior Executives and the payments made thereof pursuant to the Corporate Governance Principles

Pursuant to CMB's mandatory Corporate Governance Principle 4.6.2, the principles applicable to the remuneration of the members of the Board of Directors and the senior management must be in writing and presented to the shareholders as a separate agenda topic, and the shareholders must be given the opportunity to express their views. Otokar Otomotiv ve Savunma Sanayi A.Ş. provided information about the benefits provided to the board members and senior executives in note 27 of the financial statements for the 2019 fiscal year, and the remuneration policy prepared for this purpose is provided in **ATTACHMENT/3**.

9. Resolution of the annual gross salaries to be paid to the members of the Board of Directors

The amount of the annual gross salaries to be paid to the members of the board of directors during the 2020 fiscal year in accordance with the Remuneration Policy as presented to the approval of the shareholders in line with agenda subject 8 will be determined by the shareholders.

10. Approval of the appointment of the Independent Audit Firm as selected by the Board of Directors pursuant to the provisions of the Turkish Commercial Code and the Capital Markets Board regulations

In its meeting held on 7.02.2020, the Board of Directors resolved to appoint, in consultation with the Committee in charge of Audits, PwC Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş.) to audit the financial statements of the company pertaining to the 2020 accounting period and to carry out the other tasks under the relevant regulations in accordance with the Turkish Commercial Code and the regulations of the Capital Markets Board. This appointment will be presented to the approval of the General Assembly.

11. Presentation to the shareholders, of the donations made by the Company in 2019, and resolution of an upper limit for donations to be made in 2020

According to article 6 of the Capital Market Board's Dividends Communiqué numbered II-19.1, the limit of donations should be determined by the General Assembly in the event that it is not addressed in the articles of association. Donations and payments made should be presented to shareholders at the General Assembly. The donations made to foundations and associations in 2019 amounted to TRY 3,138,362. TRY 2,750,000 of this amount is paid to Vehbi Koç Foundation and TRY 150,000 to Educational Volunteers Foundation, the balance amount was donated to various other institutions and organizations. The upper limit of the donations to be made in 2020 will be determined by the General Assembly.

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12. Pursuant to Articles 395 and 396 of the Turkish Commercial Code and CMB regulations, authorization of the shareholders with management control, the members of the Board of Directors, the senior executives and their spouses and relatives related by blood or affinity up to the second degree; and presentation to the shareholders, of the transactions carried out thereof in the 2019 pursuant to the Corporate Governance Communiqué of the Capital Markets Board

Execution of transactions by the members of the Board of Directors within the framework of the first paragraph of article 395 titled "Ban on Execution of Transactions with the company and on Borrowing from the company", and article 396, titled "Ban on Competition", of the TCC can only be possible with the consent of the shareholders at the General Assembly.

Pursuant to CMB's mandatory Corporate Governance Principle 1.3.6, in the event that the shareholders with management control, the members of the Board of Directors, the senior executives with administrative authority, and their spouses and relatives related by blood or affinity up to the second degree enter into transactions that may result in significant conflict of interest due to their affiliations or related partnerships, and/or conduct a transaction on their own or others' behalf in an area that has the same commercial business as the Koç Group or Ünver Group, the said transactions will be presented to the General Assembly under a separate agenda topic, and recorded in minutes of the Ordinary General Assembly.

In order to fulfill the requirements of these regulations, the aforementioned permission will be submitted to the approval of our shareholders at the General Assembly. In addition, our shareholders will be informed about the transactions performed in this nature during the year, some of the shareholders, the members of the board of directors, the administrators with administrative responsibilities and their spouses and blood or affinity up to the second degree, and some other activities including those with similar activities with our company, serve as a board member or manager in Koç Group or Ünver Group companies. In 2019, there was no transaction requiring information within the scope of the principle number 1.3.6 of the Corporate Governance Communiqué.

13. Wishes and opinions

ATTACHMENTS:

- ATTACHMENT/1** Profit Distribution Policy and the proposal of the Board of Directors related to the Profit Distribution of 2019 and proposed Profit Distribution Table (See page 30-31)
- ATTACHMENT/2** Résumés of the Candidates for the Board of Directors and the Declarations of Independence of the Independent Member Candidates (See page 32-33)
- ATTACHMENT/3** Remuneration Policy for Members of the Board of Directors and Senior Management (See page 34)

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CORPORATE GOVERNANCE COMPLIANCE REPORT

I. CORPORATE GOVERNANCE COMPLIANCE REPORT (URF)

	Yes	Partial	No	Exempted	Not Applicable	Explanation
1.1. FACILITATING THE EXERCISE OF SHAREHOLDER RIGHTS						
1.1.2 - Up-to-date information and disclosures which may affect the exercise of shareholder rights are available to investors at the corporate website.	X					
1.2. RIGHT TO OBTAIN AND REVIEW INFORMATION						
1.2.1 - Management did not enter into any transaction that would complicate the conduct of special audit.	X					
1.3. GENERAL ASSEMBLY						
1.3.2 - The company ensures the clarity of the General Assembly agenda, and that an item on the agenda does not cover multiple topics.	X					
1.3.7 - Insiders with privileged information have informed the board of directors about transactions conducted on their behalf within the scope of the company's activities in order for these transactions to be presented at the General Shareholders' Meeting.					X	There are no privileged shares.
1.3.8 - Members of the board of directors who are concerned with specific agenda items, auditors, and other related persons, as well as the officers who are responsible for the preparation of the financial statements were present at the General Shareholders' Meeting.	X					
1.3.10 - The agenda of the General Shareholders' Meeting included a separate item detailing the amounts and beneficiaries of all donations and contributions.		X				The agenda of the General Shareholders' Meeting included a separate item for the total amount of the donations and contributions made i,major donations were explained in the general assembly information note.
1.3.11 - The General Shareholders' Meeting was held open to the public, including the stakeholders, without having the right to speak.	X					
1.4. VOTING RIGHTS						
1.4.1 - There is no restriction preventing shareholders from exercising their shareholder rights.	X					
1.4.2 - The company does not have shares that carry privileged voting rights.	X					
1.4.3 - The company withholds from exercising its voting rights at the General Shareholders' Meeting of any company with which it has cross-ownership, in case such cross-ownership provides management control.					X	Within Otokar Otomotiv ve Savunma Sanayi A.Ş., no cross ownerships exist that are associated with a controlling relationship.
1.5. MINORITY RIGHTS						
1.5.1 - The company pays maximum diligence to the exercise of minority rights.	X					
1.5.2 - The Articles of Association extend the use of minority rights to those who own less than one twentieth of the outstanding shares, and expand the scope of the minority rights.			X			Minority rights are not vested by the Articles of Association in shareholders holding less than one twentieth of the capital and rights are vested within the general framework of the regulations. Furthermore, there was no demand from the investors regarding this issue.

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CORPORATE GOVERNANCE COMPLIANCE REPORT

	Yes	Partial	No	Exempted	Not Applicable	Explanation
1.6. DIVIDEND RIGHT						
1.6.1 - The dividend policy approved by the General Shareholders' Meeting is posted on the company website.	X					
1.6.2 - The dividend distribution policy comprises the minimum information to ensure that the shareholders can have an opinion on the procedure and principles of dividend distributions in the future.	X					
1.6.3 - The reasons for retaining earnings, and their allocations, are stated in the relevant agenda item.					X	Dividend was distributed.
1.6.4 - The board reviewed whether the dividend policy balances the benefits of the shareholders and those of the company.	X					
1.7. TRANSFER OF SHARES						
1.7.1 - There are no restrictions preventing shares from being transferred.	X					
2.1. CORPORATE WEBSITE						
2.1.1 - The company website includes all elements listed in Corporate Governance Principle 2.1.1.	X					
2.1.2 - The shareholding structure (names, privileges, number and ratio of shares, and beneficial owners of more than 5% of the issued share capital) is updated on the website at least every 6 months.	X					
2.1.4 - The company website is prepared in other selected foreign languages, in a way to present exactly the same information with the Turkish content.	X					
2.2. ANNUAL REPORT						
2.2.1 - The board of directors ensures that the annual report represents a true and complete view of the company's activities.	X					
2.2.2 - The annual report includes all elements listed in Corporate Governance Principle 2.2.2.	X					
3.1. CORPORATION'S POLICY ON STAKEHOLDERS						
3.1.1 - The rights of the stakeholders are protected pursuant to the relevant regulations, contracts and within the framework of bona fides principles.	X					
3.1.3 - Policies or procedures addressing stakeholders' rights are published on the company's website.	X					
3.1.4 - A whistleblowing programme is in place for reporting legal and ethical issues.	X					
3.1.5 - The company addresses conflicts of interest among stakeholders in a balanced manner.	X					
3.2. SUPPORTING THE PARTICIPATION OF THE STAKEHOLDERS IN THE CORPORATION'S MANAGEMENT						
3.2.1 - The Articles of Association, or the internal regulations (terms of reference/manuals), regulate the participation of employees in management.	X					
3.2.2 - Surveys/other research techniques, consultation, interviews, observation method etc. were conducted to obtain opinions from stakeholders on decisions that significantly affect them.	X					

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CORPORATE GOVERNANCE COMPLIANCE REPORT

	Yes	Partial	No	Exempted	Not Applicable	Explanation
3.3. HUMAN RESOURCES POLICY						
3.3.1 - The company has adopted an employment policy ensuring equal opportunities, and a succession plan for all key managerial positions.	X					
3.3.2 - Recruitment criteria are documented.	X					
3.3.3 - The company has a policy on human resources development, and organises trainings for employees.	X					
3.3.4 - Meetings have been organised to inform employees on the financial status of the company, remuneration, career planning, education and health.	X					
3.3.5 - Employees, or their representatives, were notified of decisions impacting them. The opinion of the related trade unions was also taken.	X					
3.3.6 - Job descriptions and performance criteria have been prepared for all employees, announced to them and taken into account to determine employee remuneration.	X					
3.3.7 - Measures (procedures, trainings, raising awareness, goals, monitoring, complaint mechanisms) have been taken to prevent discrimination, and to protect employees against any physical, mental, and emotional mistreatment.	X					
3.3.8 - The company ensures freedom of association and supports the right for collective bargaining.	X					
3.3.9 - A safe working environment for employees is maintained.	X					
3.4. RELATIONS WITH CUSTOMERS AND SUPPLIERS						
3.4.1 - The company measured its customer satisfaction, and operated to ensure full customer satisfaction.	X					
3.4.2 - Customers are notified of any delays in handling their requests.	X					
3.4.3 - The company complied with the quality standards with respect to its products and services.	X					
3.4.4 - The company has in place adequate controls to protect the confidentiality of sensitive information and business secrets of its customers and suppliers.	X					
3.5. ETHICAL RULES AND SOCIAL RESPONSIBILITY						
3.5.1 - The board of the corporation has adopted a code of ethics, disclosed on the corporate website.	X					
3.5.2 - The company has been mindful of its social responsibility and has adopted measures to prevent corruption and bribery.	X					
4.1. ROLE OF THE BOARD OF DIRECTORS						
4.1.1 - The board of directors has ensured strategy and risks do not threaten the long-term interests of the company, and that effective risk management is in place.	X					
4.1.2 - The agenda and minutes of board meetings indicate that the board of directors discussed and approved strategy, ensured resources were adequately allocated, and monitored company and management performance.	X					

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CORPORATE GOVERNANCE COMPLIANCE REPORT

	Yes	Partial	No	Exempted	Not Applicable	Explanation
4.2. ACTIVITIES OF THE BOARD OF DIRECTORS						
4.2.1 - The board of directors documented its meetings and reported its activities to the shareholders.	X					
4.2.2 - Duties and authorities of the members of the board of directors are disclosed in the annual report.	X					
4.2.3 - The board has ensured the company has an internal control framework adequate for its activities, size and complexity.	X					
4.2.4 - Information on the functioning and effectiveness of the internal control system is provided in the annual report.	X					
4.2.5 - The roles of the Chairman and Chief Executive Officer are separated and defined.	X					
4.2.7 - The board of directors ensures that the Investor Relations department and the corporate governance committee work effectively. The board works closely with them when communicating and settling disputes with shareholders.	X					
4.2.8 - The company has subscribed to a Directors and Officers liability insurance covering more than 25% of the capital.	X					
4.3. STRUCTURE OF THE BOARD OF DIRECTORS						
4.3.9 - The board of directors has approved the policy on its own composition, setting a minimal target of 25% for female directors. The board annually evaluates its composition and nominates directors so as to be compliant with the policy.			X			Although there is not a policy on the minimum ratio of woman members of BoD, currently the ratio of female board members in the BoD is above 12,5%
4.3.10 - At least one member of the audit committee has 5 years of experience in audit/accounting and finance.	X					

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CORPORATE GOVERNANCE COMPLIANCE REPORT

	Yes	Partial	No	Exempted	Not Applicable	Explanation
4.4. BOARD MEETING PROCEDURES						
4.4.1 - Each board member attended the majority of the board meetings in person.	X					
4.4.2 - The board has formally approved a minimum time by which information and documents relevant to the agenda items should be supplied to all board members.		X				There is no minimum duration defined, the timing for the presentation of documents to BoD members depend on the agenda and the BoD are informed in a reasonable period of time.
4.4.3 - The opinions of board members that could not attend the meeting, but did submit their opinion in written format, were presented to other members.					X	Although there is the possibility to present an opinion in such a case, there has not been any notification made by the BoD members who could not attend the meetings.
4.4.4 - Each member of the board has one vote.	X					
4.4.5 - The board has a charter/written internal rules defining the meeting procedures of the board.			X			There have been sustainable processes in our company on the meeting procedures of the BoD for many years; yet there are no written internal regulations.
4.4.6 - Board minutes document that all items on the agenda are discussed, and board resolutions include director's dissenting opinions if any.	X					
4.4.7 - There are limits to external commitments of board members. Shareholders are informed of board members' external commitments at the General Shareholders' Meeting.		X				There are no restrictions for BoD Members on assuming other positions or duties outside the company. Such a restriction is not deemed necessary as the business and sectoral experience of BoD Members makes a vital contribution to the BoD. CVs of the BoD Members are provided in the annual report.

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CORPORATE GOVERNANCE COMPLIANCE REPORT

	Yes	Partial	No	Exempted	Not Applicable	Explanation
4.5. BOARD COMMITTEES						
4.5.5 - Board members serve in only one of the Board's committees.			X			Members who serve on more than one committee facilitate communication and increase the opportunities for cooperation between committees handling related subjects.
4.5.6 - Committees have invited persons to the meetings as deemed necessary to obtain their views.					X	In accordance with the working principles of the committees, the committees may make use of the opinions of the independent experts/professionals, if needed. During the past year, no such request was brought up by the committees.
4.5.7 - If external consultancy services are used, the independence of the provider is stated in the annual report.					X	There has not been any external consultancy services used.
4.5.8 - Minutes of all committee meetings are kept and reported to board members.	X					
4.6. FINANCIAL RIGHTS						
4.6.1 - The board of directors has conducted a board performance evaluation to review whether it has discharged all its responsibilities effectively.			X			No specific study was conducted at board level regarding performance evaluation.
4.6.4 - The company did not extend any loans to its board directors or executives, nor extended their lending period or enhanced the amount of those loans, or improve conditions thereon, and did not extend loans under a personal credit title by third parties or provided guarantees such as surety in favour of them.	X					
4.6.5 - The individual remuneration of board members and executives is disclosed in the annual report.			X			The remuneration of the members of the BoD and Executive Management is disclosed on a non-individual basis – in parallel to the general practices – in the annual report and at the General Assembly meetings

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CORPORATE GOVERNANCE INFORMATION FORM

II. CORPORATE GOVERNANCE INFORMATION FORM (KYBF)

1. SHAREHOLDERS

1.1. Facilitating the Exercise of Shareholders Rights

The number of investor meetings (conference, seminar/etc.) organised by the company during the year

Participated total of 4 conferences and roadshows. 46 one-on-one investor meetings were held with brokerage house analysts, domestic and foreign investors, 19 of which were abroad.

1.2. Right to Obtain and Examine Information

The number of special audit request(s)

0

The number of special audit requests that were accepted at the General Shareholders' Meeting

0

1.3. General Assembly

Link to the PDP announcement that demonstrates the information requested by Principle 1.3.1. (a-d)

<https://www.kap.org.tr/tr/Bildirim/740261>

Whether the company provides materials for the General Shareholders' Meeting in English and Turkish at the same time

Documents related to the general assembly meeting are also available on our website in English, simultaneously with their Turkish, for the information of our investors.

The links to the PDP announcements associated with the transactions that are not approved by the majority of independent directors or by unanimous votes of present board members in the context of Principle 1.3.9

There is no such transaction.

The links to the PDP announcements associated with related party transactions in the context of Article 9 of the Communique on Corporate Governance (II-17.1)

There is no such transaction.

The links to the PDP announcements associated with common and continuous transactions in the context of Article 10 of the Communique on Corporate Governance (II-17.1)

<https://www.kap.org.tr/tr/Bildirim/739967>

The name of the section on the corporate website that demonstrates the donation policy of the company

The upper limit for donations are set in each year's General Shareholder's Meetings and there is not a separate donation policy.

The relevant link to the PDP with minute of the General Shareholders' Meeting where the donation policy has been approved

The PDP link related to the General Shareholder's Meeting where the upper limit for donations are set <https://www.kap.org.tr/tr/Bildirim/748259>

The number of the provisions of the articles of association that discuss the participation of stakeholders to the General Shareholders' Meeting

15-a

Identified stakeholder groups that participated in the General Shareholders' Meeting, if any

Our General Assembly Meetings are open to the public. Stakeholders and the media are able to follow the meetings.

1.4. Voting Rights

Whether the shares of the company have differential voting rights

No

In case that there are voting privileges, indicate the owner and percentage of the voting majority of shares.

-

The percentage of ownership of the largest shareholder

44,68%

1.5. Minority Rights

Whether the scope of minority rights enlarged (in terms of content or the ratio) in the articles of the association

No

If yes, specify the relevant provision of the articles of association

-

1.6. Dividend Right

The name of the section on the corporate website that describes the dividend distribution policy

Investor Relations - Corporate Governance – Dividend Policy

Minutes of the relevant agenda item in case the board of directors proposed to the general assembly not to distribute dividends, the reason for such proposal and information as to use of the dividend

Dividend was distributed.

PDP link to the related general shareholder meeting minutes in case the board of directors proposed to the general assembly not to distribute dividends

-

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

CORPORATE GOVERNANCE INFORMATION FORM

General Assembly Meetings	
General Meeting Date	18.03.2019
The number of information requests received by the company regarding the clarification of the agenda of the General Shareholders' Meeting	-
Shareholder participation rate to the General Shareholders' Meeting	78,66%
Percentage of shares directly present at the GSM	0,06%
Percentage of shares represented by proxy	78,59%
Specify the name of the page of the corporate website that contains the General Shareholders' Meeting minutes, and also indicates for each resolution the voting levels for or against	Investor Relations - General Meetings
Specify the name of the page of the corporate website that contains all questions asked in the general assembly meeting and all responses to them	Investor Relations - General Meetings
The number of the relevant item or paragraph of General Shareholders' Meeting minutes in relation to related party transactions	-
The number of declarations by insiders received by the board of directors	0
The link to the related PDP general shareholder meeting notification	https://www.kap.org.tr/tr/Bildirim/748259
2. DISCLOSURE AND TRANSPARENCY	
2.1. Corporate Website	
Specify the name of the sections of the website providing the information requested by the Principle 2.1.1.	Investor Relations
If applicable, specify the name of the sections of the website providing the list of shareholders (ultimate beneficiaries) who directly or indirectly own more than 5% of the shares.	Investor Relations- Corporate Information - Shareholder Structure
List of languages for which the website is available	Turkish and English
2.2. Annual Report	
The page numbers and/or name of the sections in the Annual Report that demonstrate the information requested by principle 2.2.2.	
a) The page numbers and/or name of the sections in the Annual Report that demonstrate the information on the duties of the members of the board of directors and executives conducted out of the company and declarations on independence of board members	General Assembly and Corporate Governance Implementation
b) The page numbers and/or name of the sections in the Annual Report that demonstrate the information on committees formed within the board structure	Members of the Board of Directors and Members of the Committees
c) The page numbers and/or name of the sections in the Annual Report that demonstrate the information on the number of board meetings in a year and the attendance of the members to these meetings	Corporate Governance Implementation
ç) The page numbers and/or name of the sections in the Annual Report that demonstrate the information on amendments in the legislation which may significantly affect the activities of the corporation	Legal Disclosures
d) The page numbers and/or name of the sections in the Annual Report that demonstrate the information on significant lawsuits filed against the corporation and the possible results thereof	Legal Disclosures
e) The page numbers and/or name of the sections in the Annual Report that demonstrate the information on the conflicts of interest of the corporation among the institutions that it purchases services on matters such as investment consulting and rating and the measures taken by the corporation in order to avoid from these conflicts of interest	Legal Disclosures
f) The page numbers and/or name of the sections in the Annual Report that demonstrate the information on the cross ownership subsidiaries that the direct contribution to the capital exceeds 5%	Legal Disclosures
g) The page numbers and/or name of the sections in the Annual Report that demonstrate the information on social rights and professional training of the employees and activities of corporate social responsibility in respect of the corporate activities that arises social and environmental results	Sustainability and Human Resources

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

CORPORATE GOVERNANCE INFORMATION FORM

3. STEAKHOLDERS	
3.1. Corporation's Policy on Stakeholders	
The name of the section on the corporate website that demonstrates the employee remedy or severance policy	-
The number of definitive convictions the company was subject to in relation to breach of employee rights	0
The position of the person responsible for the alert mechanism (i.e. whistleblowing mechanism)	Internal Audit Directorate and Ethical Code Board
The contact detail of the company alert mechanism.	https://www.otokar.com/en-us/contact/Pages/suggestionform.aspx
3.2. Supporting the Participation of the Stakeholders in the Corporation's Management	
Name of the section on the corporate website that demonstrates the internal regulation addressing the participation of employees on management bodies.	Internal regulations are not publicly available or accessible.
Corporate bodies where employees are actually represented	Our coworkers participate in management and share their opinions through various methods. There are representatives working in the Occupational Health and Safety, Discipline and Annual Leave Boards. All employees can share their ideas electronically in areas where improvement can be made through the suggestion system. The annual Employee Loyalty Surveys that are conducted at all our companies collect the opinions of all our coworkers anonymously in open-ended questionnaire format. Through various communication meetings held at our companies, company-related information is shared with the employees, dealers and other stakeholders, and their questions and comments are obtained.
3.3 Human Resources Policy	
The role of the board on developing and ensuring that the company has a succession plan for the key management positions	A succession plan is developed for all key managerial positions. These succession plans are finalized with the approval of the General Manager.
The name of the section on the corporate website that demonstrates the human resource policy covering equal opportunities and hiring principles. Also provide a summary of relevant parts of the human resource policy.	Since 2017, Otokar has been the signatory of the United Nations Women's Unit (UN Women), as well as the Women's Empowerment Principles (WEPs), a joint initiative of the United Nations Global Compact (UN Global Compact). The qualifications required in each job posting are presented. In addition, the Code of Ethics emphasizes equality of opportunity in recruitment. https://www.otokar.com/en-us/investorrelations/corporategovernance/Pages/ethical-code.aspx
Whether the company provides an employee stock ownership programme	There isn't an employee stock ownership programme
The name of the section on the corporate website that demonstrates the human resource policy covering discrimination and mistreatments and the measures to prevent them. Also provide a summary of relevant parts of the human resource policy.	Corporate - Human Resources
The number of definitive convictions the company is subject to in relation to health and safety measures	0
3.5. Ethical Rules and Social Responsibility	
The name of the section on the corporate website that demonstrates the code of ethics	Investor Relations - Corporate Governance - Ethical Code
The name of the section on the company website that demonstrates the corporate social responsibility report. If such a report does not exist, provide the information about any measures taken on environmental, social and corporate governance issues.	Corporate - Sustainability
Any measures combating any kind of corruption including embezzlement and bribery	Principles on these topics are covered in Code of Ethics.

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

CORPORATE GOVERNANCE INFORMATION FORM

4. BOARD OF DIRECTORS - I	
4.2. Activity of the Board of Directors	
Date of the last board evaluation conducted	-
Whether the board evaluation was externally facilitated	No
Whether all board members released from their duties at the GSM	Yes
Name(s) of the board member(s) with specific delegated duties and authorities, and descriptions of such duties	No delegation was made among the board members.
Number of reports presented by internal auditors to the audit committee or any relevant committee to the board	1 (Internal audit unit provides collective information to the audit committee regarding the operations within the year)
Specify the name of the section or page number of the annual report that provides the summary of the review of the effectiveness of internal controls	Internal Audit
Name of the Chairman	Yıldırım Ali Koç
Name of the CEO	Ahmet Serdar Görgüç
If the CEO and Chair functions are combined: provide the link to the relevant PDP announcement providing the rationale for such combined roles	-
Link to the PDP notification stating that any damage that may be caused by the members of the board of directors during the discharge of their duties is insured for an amount exceeding 25% of the company's capital	-
The name of the section on the corporate website that demonstrates current diversity policy targeting women directors	None
The number and ratio of female directors within the Board of Directors	1 (12.5%)

Composition of Board of Directors							
Name, Surname of Board Member	Whether Executive Director or Not	Whether Independent Director or Not	The First Election Date To Board	Link to PDP Notification That Includes The Independency Declaration	Whether the Independent Director Considered By The Nomination Committee	Whether She/He is the Director Who Ceased to Satisfy The Independence or Not	Whether The Director Has At Least 5 Years' Experience on Audit, Accounting And/Or Finance or Not
Yıldırım Ali Koç	Non-Executive	Not Independent	26.03.2015		Not Considered	No	Yes
Levent Çakıroğlu	Non-Executive	Not Independent	26.03.2015		Not Considered	No	Yes
Selin Ayla Ünver	Non-Executive	Not Independent	22.10.2018		Not Considered	No	Yes
İsmail Cenk Çimen	Non-Executive	Not Independent	18.03.2019		Not Considered	No	Yes
Ahmet Serdar Görgüç	Executive	Not Independent	20.04.2006		Not Considered	No	Yes
Ahmet Nezh Olcay	Non-Executive	Independent	28.03.2014	https://www.kap.org.tr/tr/Bildirim/758034	Considered	No	Yes
Ali İhsan Kamanlı	Non-Executive	Independent	15.03.2018	https://www.kap.org.tr/tr/Bildirim/758034	Considered	No	Yes
Kenan Güven	Non-Executive	Independent	15.03.2018	https://www.kap.org.tr/tr/Bildirim/758034	Considered	No	Yes

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

CORPORATE GOVERNANCE INFORMATION FORM

4. BOARD OF DIRECTORS - II	
4.4. Meeting Procedures of the Board of Directors	
Number of physical board meetings in the reporting period (meetings in person)	2
Director average attendance rate at board meetings	90%
Whether the board uses an electronic portal to support its work or not	No
Number of minimum days ahead of the board meeting to provide information to directors, as per the board charter	There is no such policy.
The name of the section on the corporate website that demonstrates information about the board charter	There is no such policy.
Number of maximum external commitments for board members as per the policy covering the number of external duties held by directors	There is no such policy.
4.5. Board Committees	
Page numbers or section names of the annual report where information about the board committees are presented.	Members of the Board of Directors and Members of the Committees
Link(s) to the PDP announcement(s) with the board committee charters	https://www.kap.org.tr/tr/Bildirim/751694

Composition of Board Committees - I				
Names of The Board Committees	Name of Committees Defined as "Other" in The First Column	Name-Surname of Committee Members	Whether Committee Chair or Not	Whether Board Member or Not
Audit Committee	-	Ahmet Nezih Olcay	Chairman	Board Member
Audit Committee	-	Ali İhsan Kamanlı	Member	Board Member
Corporate Governance Committee	-	Ahmet Nezih Olcay	Chairman	Board Member
Corporate Governance Committee	-	Levent Çakıroğlu	Member	Board Member
Corporate Governance Committee	-	Hüseyin Odabaş	Member	Not Board Member
Risk Management Committee	-	Kenan Güven	Chairman	Board Member
Risk Management Committee	-	İsmail Cenk Çimen	Member	Board Member

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CORPORATE GOVERNANCE INFORMATION FORM

4. BOARD OF DIRECTORS - III

4.5. Board Committees - II

Specify where the activities of the audit committee are presented in your annual report or website (Page number or section name in the annual report/website)	Corporate Governance Implementation - The Committees formed by the Board of Directors
Specify where the activities of the corporate governance committee are presented in your annual report or website (Page number or section name in the annual report/website)	Corporate Governance Implementation - The Committees formed by the Board of Directors
Specify where the activities of the nomination committee are presented in your annual report or website (Page number or section name in the annual report/website)	There is no nomination committee. The corporate governance committee carries out its activities.
Specify where the activities of the early detection of risk committee are presented in your annual report or website (Page number or section name in the annual report/website)	Corporate Governance Implementation - The Committees formed by the Board of Directors
Specify where the activities of the remuneration committee are presented in your annual report or website (Page number or section name in the annual report/website)	There is no remuneration committee. The corporate governance committee carries out its activities.
4.6. Financial Rights	
Specify where the operational and financial targets and their achievement are presented in your annual report (Page number or section name in the annual report)	Board of Directors Report
Specify the section of website where remuneration policy for executive and non-executive directors are presented.	Investor Relations - Corporate Governance
Specify where the individual remuneration for board members and senior executives are presented in your annual report (Page number or section name in the annual report)	Remuneration Policy

Composition of Board Committees-II

Names of The Board Committees	Name of Committees Defined as "Other" in The First Column	The Percentage of Non-executive Directors	The Percentage of Independent Directors in The Committee	The Number of Meetings Held In Person	The Number of Reports on its Activities Submitted to the Board
Audit Committee	-	100%	100%	6	6
Corporate Governance Committee	-	67%	33%	8	8
Risk Management Committee	-	100%	50%	7	7

GLOSSARY

BIST: Borsa İstanbul A.Ş. (Istanbul Stock Exchange)

CMB: Capital Markets Board

EBITDA: Earnings before Interest, Taxes, Depreciation and Amortization

e-GKS: Electronic General Meeting System (e-GEM). Shareholder participation to General Assembly meetings by remote access and mobile applications through e-MKK Information Portal.

EMC: Electromagnetic Compatibility

EMI: Electromagnetic Interference

IAS: International Accounting Standards

IED: Improvised explosive device

POA: Public Oversight Accounting and Auditing Standards Authority

Liquidity: The level of ease and speed with which assets can be converted into cash.

MESS: Turkish Metal Industrialists Union

KAP: Public Disclosure Platform (PDP) is an electronic system through which electronically signed notifications required by the capital markets and Borsa İstanbul regulations are publicly disclosed.

OSD: Automotive Manufacturers Association

TAS: Turkish Accounting Standards

TCC: Turkish Commercial Code

MKK: Central Depository Institution holds capital market instruments and rights in an electronic environment on an investor basis with respect to participants.

NOTES

NOTES

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