



Otokar

ANNUAL REPORT 2015

We remain deeply saddened by the untimely death of Koç Holding
Chairman Mustafa V. Koç.

Mustafa V. Koç leaves behind a substantial, highly successful and proud
legacy from his 32-year professional career, which included 13 years as
Chairman of Koç Holding.

During his tenure as Chairman, groundbreaking investments were
undertaken with determination. The Holding's position in the domestic
market was reinforced through successful acquisitions. Koç corporate banner
was planted in new countries and our international operations expanded.
The Holding's and nation's overseas revenues significantly increased through
large-scale export projects. Mustafa V. Koç's global vision turned the Holding
into one of the world's leading corporations and Koç Holding achieved the
honor of being the only Turkish firm on the Fortune 500 list.

During his life, Mustafa V. Koç was committed to the motto of Holding
founder Vehbi Koç, "I exist as long as my country exists and prospers".
He was not only a leader who took on ambitious business ventures, but
also a pioneer in social responsibility projects, which he wholeheartedly
embraced to contribute to the nation's social advancement.

Always a firm believer in Turkey's bright future, Mustafa V. Koç leaves
behind a permanent mark with his vision, philanthropy, leadership and most
important of all, humanitarian values. He was truly a man of the people. A
leader who energized and supported his employees, he was also a source of
inspiration with his global perspective, determination,
values and business ethics.

Going forward, we shall transform Koç Holding from a company with
international operations into a truly global company in line with his values,
broad vision and dynamism...

We will remember him with respect, affection and gratitude.

KOÇ GROUP



Mustafa V. Koç
(1960-2016)

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Conquering global routes...

It all started with the aim of manufacturing “Turkey’s vehicles”. We worked hard since day one. We rapidly forged ahead with determined steps. We strived and we succeeded, we launched many firsts locally and then we opened to the world. For years we instilled trust in millions of people, carried them and made sure that they united with their loved ones. And today we are conquering global routes with our vehicles used in more than 60 countries in 5 continents.

Otokar

CONVENIENCE TRANSLATION INTO ENGLISH OF INDEPENDENT AUDITOR'S REPORT ON THE BOARD OF DIRECTORS' ANNUAL REPORT ORIGINALLY ISSUED IN TURKISH



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

Auditor's Report on the Board of Directors' Annual Report

1. We have audited the annual report of Otokar Otomotiv ve Savunma Sanayi A.Ş. (the "Company") for the year ended 31 December 2015.

Board of Directors' responsibility for the Annual Report

2. The Company's management is responsible for the fair preparation of the annual report and its consistency with the financial statements in accordance with Article 514 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") and for such internal control as management determines is necessary to enable the preparation of the annual report.

Independent Auditor's Responsibility

3. Our responsibility is to express an opinion on the Company's annual report based on the independent audit conducted pursuant to Article 397 of TCC and the Communiqué, whether or not the financial information included in this annual report is consistent with the Company's financial statements that are subject to independent auditor's report dated 29 February 2015 and presented fairly.

Our independent audit was conducted in accordance with Independent Auditing Standards that are part of the Turkish Standards on Auditing issued by the Public Oversight Accounting and Auditing Standards Authority. Those standards require that ethical requirements are complied with and that the independent audit is planned and performed to obtain reasonable assurance whether the financial information in the annual report is fairly presented and consistent with the financial statements.

An independent audit requires applying audit procedures to obtain audit evidence on the historical financial information. The procedures selected depend on the professional judgement of the independent auditor.

We believe that the independent audit evidences we have obtained during our independent audit, are sufficient and appropriate to provide a basis for our opinion.

Opinion

4. Based on our opinion, the financial information in the annual report of Board of Directors of Otokar Otomotiv ve Savunma Sanayi A.Ş. is consistent with the audited financial statements and presented fairly, in all material respects.

Other Responsibilities Arising From Regulatory Requirements

5. Pursuant to subparagraph 3 of Article 402 of the TCC No. 6102, within the context of ISA 570 "Going Concern", we have not encountered any significant issue which we are required to be reported with regard to the inability of Otokar Otomotiv ve Savunma Sanayi A.Ş. to continue its operations for the foreseeable future.

Başaran Nas Bağımsız Denetim ve Serbest
Muhasebeci Mali Müşavirlik A.Ş.
a member of
PricewaterhouseCoopers

Beste Gücümén, SMMM
Partner

İstanbul, February 29, 2016

MESSAGE FROM THE CHAIRMAN OF THE BOARD



Esteemed Shareholders, Business Partners and Employees,

We remain deeply saddened by the untimely passing of my dear brother and Koç Holding Chairman Mustafa V. Koç in the early days of 2016. He was a leader who contributed to the advancement of the Group and the nation, and a pioneer in social responsibility projects, always leading the way and inspiring us with his humanitarian values and determination. We will remember him with respect, affection and gratitude.

We will follow the vision of transforming Koç Holding into a truly global player in the international arena that Mustafa V. Koç leaves behind, and expand to new horizons with our achievements, all the while remaining true to his guidance and values. Our companies, armed with human resources, abilities and their determination to succeed, are all ready to forge ahead on this path. I am confident that Otokar will be one of the most successful companies to make us proud.

The financial results Otokar achieved in 2015 are a clear indication that the company is moving forward with strategies focused on this target. Otokar attained 16% growth in turnover, and reached TL 1.4 billion, while increasing its export figures 77% on TL basis, corresponding to 29% of total revenues. With this level of success, Otokar has maintained its position both as the largest private capital company in the Turkish defence

industry and also as the leading bus brand of Turkey in 2015.

Leader of the Bus Market

As a result of our operations, which we carry out with the goal of spreading our success in the domestic bus market to international markets, we became the export leader in the Turkish small bus segment. Despite the fact that 35 or less passenger capacity medium size bus segment shrank by 46% in units exported from Turkey, Otokar maintained its position as the most preferred small bus brand in France. Our efforts to structure the sales organizations in target markets such as Italy, Germany and Spain generated positive results; we increased our bus sales in these markets significantly. The most important export delivery of 2015 was without a doubt the Vectio buses for the Malta Public Transport Authority. Thanks to high customer satisfaction, we secured an additional order for Kent buses, making it the largest contract awarded to a Turkish company for right-hand drive buses, and opening the door to different markets for Otokar.

In the cargo transportation segment, the issues on the Turkish borders affected the international logistics sector negatively; however the trailer segment attained growth with the dynamism of the construction sector in the domestic market and the implementation of

We increased our turnover 16%,
and reached TL 1.4 billion.

new regulations like the ADR. These developments led us to focusing on the domestic transportation sector in these segments, and adding new authorized dealers to our sales network.

Ready to Serve

While the global defence industry downsized 1.3% in 2015, prioritization of national projects and giving first preference to local manufacturers to reduce dependency on foreign resources impacted the development of the Turkish defence industry positively. Having been awarded the Grand Award in 2015 Defence Industry by the Undersecretariat for Defence Industries, Otokar completed the delivery of all the orders to the use of Turkish Armed Forces and security forces fully and on time. Cobra II was added to the inventory of the Turkish Armed Forces. While we maintained our position as Turkey's leading land defence vehicles manufacturer, we also turned to export markets. This year we added Otokar Ural armoured vehicle to our export portfolio, and we also received new orders for various armoured vehicles to be used in the United Nations Peacekeeping Forces.

We also completed the development processes and prototype productions in accordance with the Main Contract for Phase I Turkish Main Battle Tank Design and Prototype Production signed on July 29, 2008 within the frame of the "Modern Tank Production with National Capabilities Project" (Altay Project) in 2015. While the user system qualification and acceptance tests continued, we submitted our proposal for serial production in accordance with the contract and project calendar to the Undersecretariat for Defence Industries on January 18, 2016. The Undersecretariat will now form an opinion on serial production following their evaluations. Armed with our entire human resources from our employees to our subcontractors, our experience, capabilities and our passion to offer the best for our country, we are ready to serve.

Otokar in the Turkish Patent League

As Otokar, committed to the motto of Koç Holding founder Vehbi Koç, "I exist as long as my country exists and prospers", continued to add more value to the community, the economy and the nation every day, creating employment and investing for the future, its endeavours were recognized with numerous awards in 2015. Otokar ranked fifth in the Turkish Patent Awards that recognize the companies that file the highest number of patent applications. Currently holding 246 patents and utility models, Otokar has allocated 3.8% of its revenues on average to R&D expenditures every year, and spent TL 310 million on R&D in the last decade. The share of the products with Otokar-owned intellectual property rights in our turnover has reached the levels of 95%. Since its founding in 1963 to date, Otokar's vision has been to preserve

the local and national identity of its products by developing technologies in-house; and this year Otokar R&D Centre, one of the most advanced testing centres in the world, continued to offer its testing capabilities to the use of different industries. We expect this service to create new opportunities for Otokar in the future.

High Performance

One of the most important developments of last year was Otokar's inclusion in the BIST Sustainability Index. We carried out activities to utilize our resources more efficiently without compromising from our ethical codes, the importance we place on the environment, people and community, and our corporate governance principles. Our net profit reached TL 80 million while Otokar stocks returned 6.4% nominally, performing higher than the relevant indexes.

2016 Overview

With the Euro 6 emission standards coming into force for commercial vehicles and the implementation of accompanying regulations, we predict a slowdown in 2016. However, we also expect the city bus segment to enter an upward trend with the effect of deferred demand from last year. We are aiming to maintain our lead position in the Turkish bus market in 2016, while opening to new export markets and increasing our market share in cargo transportation vehicles.

We will be focusing on the production of domestic and international orders we received last year but we will also keep working rapidly on our exports. 2016 will be a year when we will realize the potential to develop different collaborations with our existing clients. If we are tasked with the production of the Altay main battle tank, Turkey's largest land defence systems project, we will be ready to fulfil all of our obligations diligently. We believe the interest that the friendly and allied countries have expressed in the Altay battle tank will have a positive impact on the exports of the Turkish defence industry as well.

Hoping that 2016 will be a peaceful and prosperous year for our world, I would like to wish continued success to all of our shareholders, partners, customers, employees, business partners, and to our Group.

Sincerely,

Ali Y. Koç
Chairman

OVERVIEW

FOUNDED 1963
100%
LOCAL CAPITAL



Koç Holding A.S.
45%

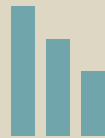
Üner Holding A.S.
25%

Other
30%



Global

Products with Otokar-owned intellectual property rights, used in over 60 countries across 5 continents



Largest

Turkey's largest private company in the defence industry



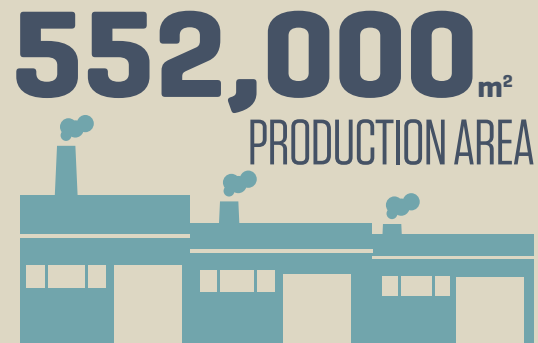
Pioneer

Leading supplier of land defence systems to Turkish Armed Forces

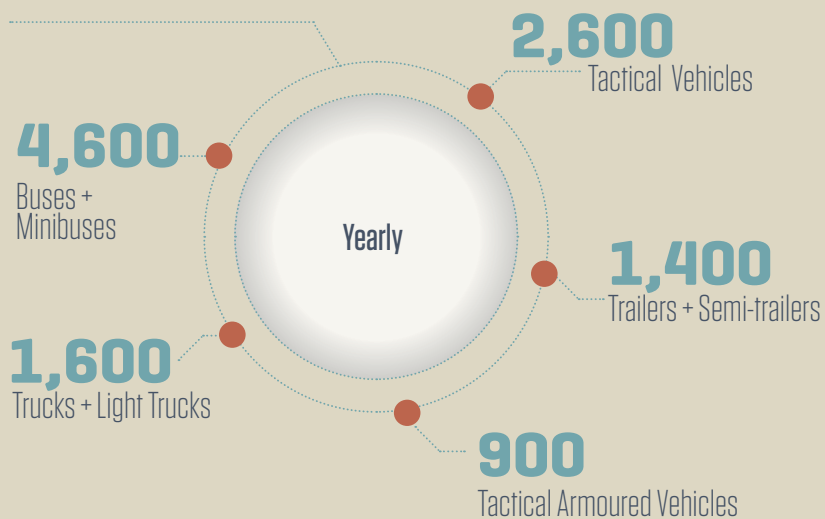


Market Leader

Most preferred bus brand in the 25+ capacity passenger transportation segment in Turkey for the last six years



Production Capacity

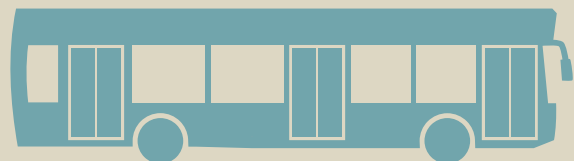


\$ 149 million
EXPORT REVENUES

1.4 billion TL
2015 TURNOVER

\$ 310 million
10-YEAR R&D EXPENDITURE

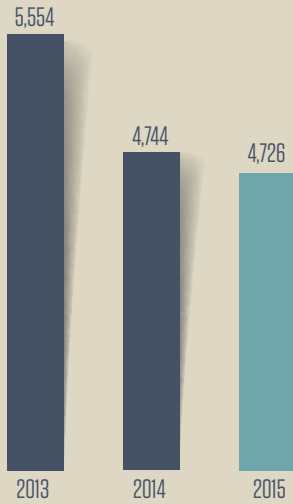
**1 out of every 3 buses
sold in Turkey
is Otokar**



SUMMARY FINANCIAL INFORMATION

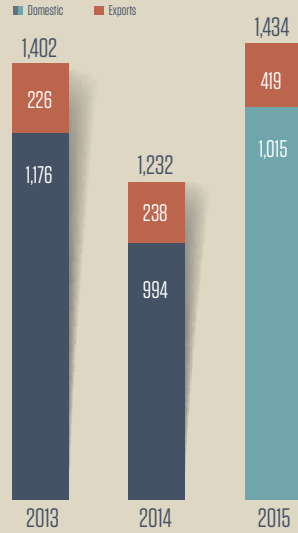
Sales Quantities

unit



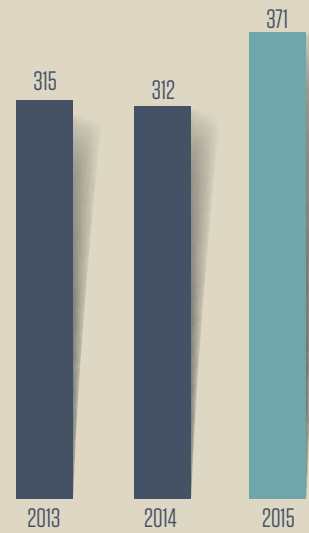
Sales Revenues

TL million



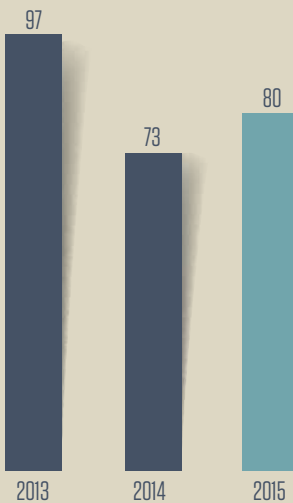
Gross Profit

TL million



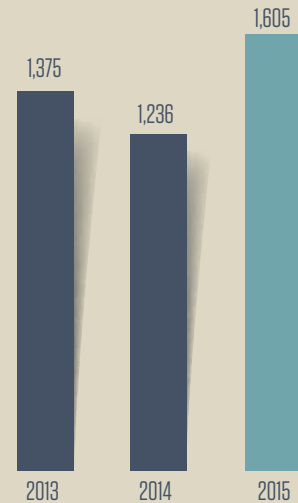
Net Profit

TL million



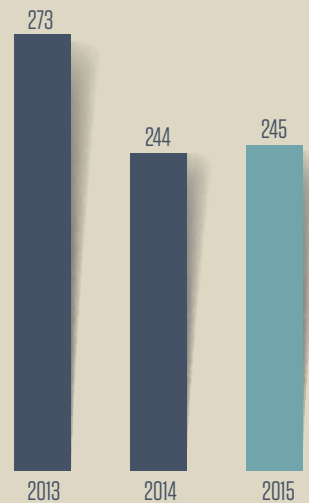
Total Assets

TL million



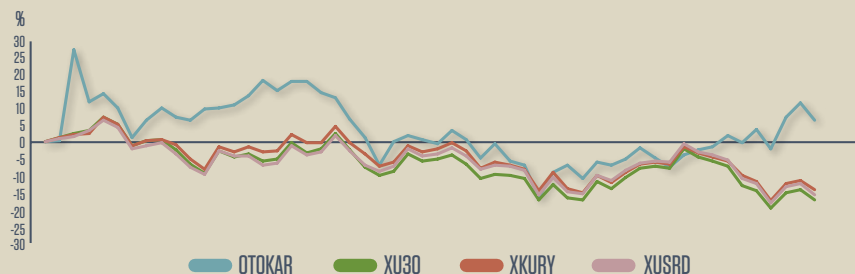
Shareholders' Equity

TL million



Stock Performance

Otokar is listed on Borsa Istanbul and traded with ticker symbol "OTKAR" while the company stocks are also included in the BIST30, Corporate Governance and Sustainability indexes. Stocks have seen lowest TL 68.50 and highest TL 110.58 in 2015, returning nominal 6.4%. The stocks have performed better compared to the indexes and returned higher revenue.



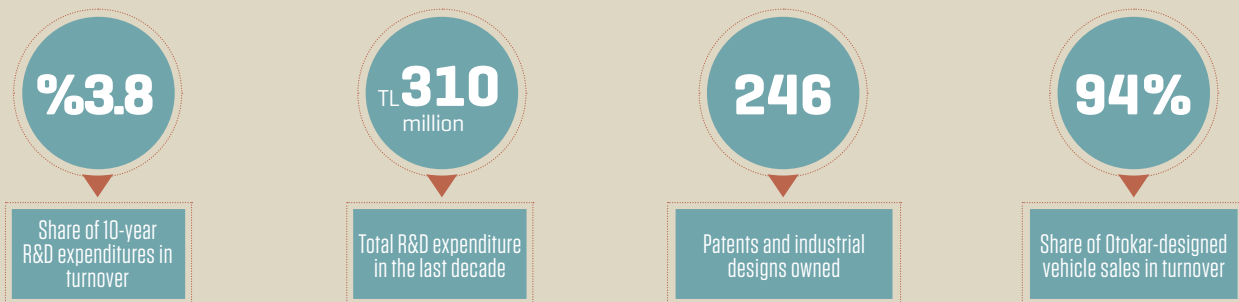
Main Ratios (%)

	2014	2015
Gross Profit Margin	25	26
Operating Margin	10	10
EBITDA Margin	14	13
Pre-Tax Profit Margin	7	6
Net Margin	6	6

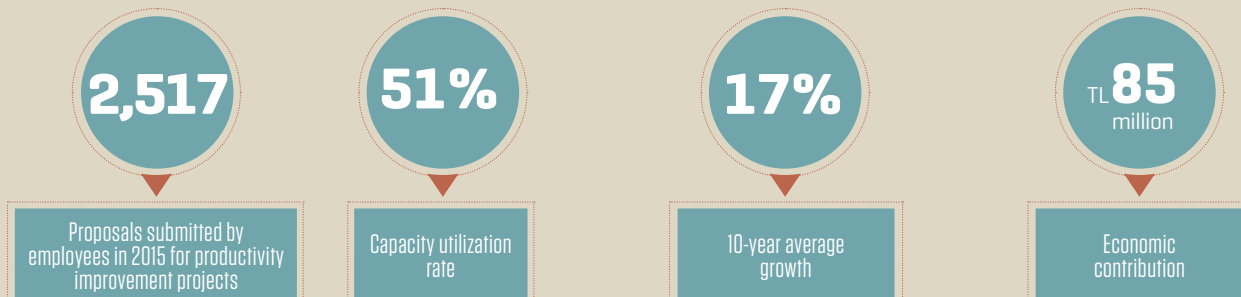
Financial Ratios

Liquidity Ratios	2014	2015
Current Ratio (Current Assets/Short Term Liabilities)	1.05	1.30
Liquidity Ratio (Current Assets-Inventories/Short Term Liabilities)	0.64	0.75
Financial Leverage Ratios	2014	2015
Total Debt to Total Assets Ratio (Short Term Debt + Long Term Debt/Total Assets)	0.80	0.85
Equity/Total Debt Equity/(Short Term Debt + Long Term Debt)	0.25	0.18
Profitability Ratios	2014	2015
Sales Profitability Ratio (Pre-Tax Profit/Net Sales)	0.07	0.06
Return on Assets (Pre-Tax Profit/Total Assets)	0.07	0.05
Return on Equity (Net Profit/Shareholders' Equity)	0.30	0.32

R&D Indicators



Productivity Indicators



Corporate Governance Rating Score **9.28**

COMPETITIVE ADVANTAGES



**PRODUCTS WITH
OTOKAR OWNED
INTELLECTUAL
PROPERTY
RIGHTS**

Independence to develop
products to meet market
requirements

PUBLICLY TRADED

Transparent structure,
reliability

**OPERATING
IN NICHE MARKETS**

Sustainable growth



**R&D CAPABILITIES
AND FLEXIBLE
PRODUCTION
ABILITY**

Rapid product
development and
launch

**CAPABILITY TO
OFFER CUSTOMIZED
FEATURES**

Customer satisfaction
guarantee

**NO FOREIGN
PARTNERS**

Advantage in national
projects

AREAS OF OPERATION

COMMERCIAL VEHICLES



DESCRIPTION

PASSENGER TRANSPORTATION

- Widest product range in the Turkish bus segment with an offering that includes buses from 7 to 18.75 metres with varying passenger capacities suitable for urban, intercity and tourism transportation.
- Exporting buses to more than 40 countries, particularly in Europe.
- Working on alternative fuelled vehicles.



CARGO TRANSPORTATION

- Among the leading manufacturers of trailers, semi-trailers, on-truck applications for local and international transportation and logistics sectors.
- In the light truck segment, manufacturing Otokar Atlas, light truck with 8.5-tonne weight capacity under license, since 2013.

DEFENCE INDUSTRY



DEFENCE INDUSTRY

- The leading supplier of land defence systems as Turkey's largest private capital defence industry company.
- More than 29,000 vehicles are actively used both in Turkey and also in over 30 allied and friendly countries by their armed forces and security forces.
- Otokar products are manufactured on order basis depending on the intended purpose, capacity and protection levels.
- Export of all Otokar defence industry products are subject to the requirements of related governments' export license regulations.
- Prime contractor of Turkish national main battle tank project "Altay".

PRODUCTS

BUSES

Tempo

Navigo / Sultan

Vectio / Doruk

Kent

Kent Articulated

Territo

MARKET POSITION AND DEVELOPMENTS IN 2015

- The leader of Turkish bus market for the sixth consecutive year (25+ passenger capacity bus segment).
- Deal signed for the largest contract awarded to a Turkish company for right-hand drive buses, and an order of 176 buses received from Malta.
- The 150th bus was exported to Italy.
- Kent Articulated Bus debuted at the Busworld Fair in Belgium.
- Became Turkey's leader in small bus exports.
- Position maintained as the most preferred small bus brand in France.
- Share in major European markets increased.

TRAILERS, SEMI-TRAILERS

Otokar-Fruehauf Curtainsider Semi-Trailer

[Tirliner, Speedslider, Mega Speedslider, Euroslider, Huck-a-Pack Semi-Trailer]

Otokar-Fruehauf Refrigerated Semi-Trailer

[Iceliner, Iceliner Premium]

Otokar-Fruehauf ADR-certified tanker semi-trailer and on-truck applications

[Cylindrical, elliptical, maxi section]

Ecotir, Ecoliner, Plato, Duet, Kontena, Spira

LIGHT TRUCKS

Atlas Long Wheelbase, Atlas Short Wheelbase

- Structuring of the sales organization for Atlas with features including design, durability, load capacity and low maintenance costs continued.

TACTICAL WHEELED VEHICLES

4x4 Tactical Wheeled Vehicles [Land Rover Defender]

4x4 Tactical Wheeled Armoured Vehicles [Otokar APV, Ural, Cobra, Cobra II, Kaya, Kaya II, Kale, Discreetly Armoured Station Wagon, Armoured Internal Security Vehicle]

6x6 Tactical Wheeled Armoured Vehicle [Arma 6x6]

8x8 Tactical Wheeled Armoured Vehicle [Arma 8x8]

TRACKED ARMoured VEHICLES

Main Battle Tank [Altay]

Light Tracked Armoured Vehicle [Tulpar, Tulpar S]

TURRET SYSTEMS

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

- Awarded "Grand Award" in Defence Industry 2015 by the Undersecretariat for Defence Industries.
- Testing of the final two prototypes of Main Battle Tank Altay commenced at Turkish Armed Forces and the Undersecretariat for Defence Industries.
- Arma 8x8 winter test completed.
- Domestic and international defence orders delivered.
- Tulpar S Tracked Armoured Combat Vehicle and 8x8 CBRN Reconnaissance Vehicle added to product range.





■ ■
OTOKAR PRODUCTS
ARE SOLD IN
MORE THAN 60
COUNTRIES ACROSS 5
CONTINENTS.
■ ■

ABOUT



Otokar was established in 1963 at a time when industrialisation and modernisation initiatives were being launched in Turkey to manufacture the country's first intercity buses. Having started its operation with the production of buses and minibuses, the Company joined the Koç Group in 1976, and decided to specialise in other business areas in addition to mass transportation vehicles. Along with the on-going production of buses and minibuses, Otokar began manufacturing vehicles for defence industry in 1987, and produced Turkey's first tactical wheeled armoured vehicle in the 1990s.

Today, as Turkey's one of the leading manufacturer of commercial vehicles and defence industry products, Otokar produces buses, light trucks and semi-trailers in the commercial vehicles segment, and a variety of tactical wheeled and tracked armoured vehicles and turret systems for the defence industry. Otokar, as the leader and largest private capital company in the defence industry, maintains its strong position in the sector. A part of the Koç Group, the company operates at the Arifiye (Sakarya) plant with a workforce of 2,105 employees, offering its clients solutions that can be customized to their needs with its technologies, designs and applications.

Otokar has maintained its title as the best selling bus brand in Turkey for the sixth consecutive year, while continuing to expand its wide product offering with

buses ranging from 7 metres to 18.75 metres for passenger transportation. 2015 saw the addition of one more title, as the Company became the export leader in the small bus segment. After launching Turkey's first hybrid bus and electric bus, Otokar is currently working on alternative-fuelled buses.

The portfolio for the cargo transportation segment includes semi-trailers for the logistics and transportation sector as well as the light trucks added to the product range in 2013. Various categories such as curtainsider semi-trailers, refrigerated trailers, container carriers, and tanker semi-trailers are manufactured in international standards. In addition to manufacturing Turkey's first ADR-certified tanker semi-trailer for hazardous material transportation, Otokar also offers safe and hygienic solutions with refrigerated trailers for perishable goods transportation. Meanwhile Atlas, a light truck with 8.5-tonne weight capacity is manufactured under license.

Otokar stands apart with its expertise in the design, development and system integration of all kinds of vehicles and platforms in the field of land vehicles for the defence industry. The company manufactures tactical wheeled and tracked armoured vehicles and turret systems with owned intellectual property rights, and exports defence industry products to over 30 countries. The main battle tank "Altay", which Otokar as prime

552,000 m²

PLANT AREA

Otokar carries out its operations at its vast plant in the Arifiye district of Sakarya province.

contractor has designed and developed, is a project where national capabilities and resources have been utilized to meet the requirements of the Turkish Armed Forces. Thanks to "Altay", a design, prototyping and qualification project, Turkey has not only created a main battle tank and obtained intellectual property rights, but also gained the infrastructure to design and manufacture the most complicated ground vehicle.

Otokar's wide product range is in high demand, not only in Turkey but also internationally. Otokar products are sold in 5 continents in over 60 countries including Turkey.

Otokar has made its mark with numerous firsts since its founding, and the company also stands apart with the R&D activities carried out in international standards. Having allocated approximately 3.8% of its revenues to R&D expenditures in the last decade, Otokar ranks fifth in the Turkish Patent League with the patent applications filed in 2015.

Vision

Otokar's vision is to preserve the local and national identity of its products by developing technologies in-house, and to provide continued satisfaction for its clients, employees, and shareholders with total excellence philosophy.

Mission

Otokar's primary mission is to design, manufacture and market commercial vehicles and various defence industry products with global competitive strength, all developed to meet customer expectations.



CERTIFICATIONS AND MANAGEMENT SYSTEMS

In addition to the ISO 14001 and OHSAS 18001, Otokar follows and adheres to the following standards, directives and methodologies:

- ISO 9001 Quality Management System
- ISO 27001 Information Security Management System
- AQAP 2110 Quality Assurance Certificate
- Turkish MoD Production and Facility Permits
- Facility Security Certificate with National and NATO Security Clearance
- ISO 10002 Customer Satisfaction Management System
- ISO 3834-2 Welding Quality Certification (for ADR-certified tanker production)
- TS 12681 Authorized Technical Services Compliance Certification
- TS 12047 Authorized Technical Services Compliance Certification
- EMI/EMC Testing Centre TS EN ISO/IEC 17025:2012 (TÜRKAK accreditation)
- 6 Sigma DMAIC



2,105

EMPLOYEES

With its 1,484 blue-collar and 621 white-collar employees, Otokar has an experienced and qualified workforce able to use state-of-the-art technology, aware of the value and importance of serving the customers, and open to continuous learning and progress.



60+

COUNTRIES WHERE PRODUCTS ARE SOLD

Otokar is a global company with one hundred per cent local capital, serving clients across 5 continents.

BOARD OF DIRECTORS



Yıldırım Ali Koç
Chairman

Ali Y. Koç (born 1967, Istanbul) graduated from Rice University (USA) with a Bachelor's degree in Business Administration, and earned his MBA degree at Harvard Business School (USA).

He participated in the Management Trainee Program of American Express Bank (1990–1991), and later worked as an Analyst at Morgan Stanley Investment Bank (1992–1994). He went on to hold various senior positions at Koç Holding such as Business Development Coordinator and President of the Information Technology Group (1997–2006). He was the President of the Corporate Communications and Information Technology Group (2006–2010), and sat as a member on the Board of Directors of Koç Holding (2008 – 2016). Since February 22, 2016 he is serving as the Vice Chairman of the Board of Directors of Koç Holding.

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

Halil İbrahim Ünver
Deputy Chairman

Halil İbrahim Ünver (born 1950, Istanbul) graduated from Ulmer Technical College in Germany. Mr. Ünver is currently the Chairman of Ünver Holding.

Pursuant to the CMB's Corporate Governance Principles, Mr. Ünver is a non-executive director, but does not qualify to serve as an independent board member. Mr. Ünver, whose appointments in the last decade have been stated above, currently serves on the Board of Otogar.

Osman Turgay Durak
Board Member

Osman Turgay Durak (born 1952, Istanbul) received his graduate and master degrees from Northwestern University, Department of Mechanical Engineering (USA). He joined Koç Group in 1976, starting as a Product Development Engineer at Ford Otomotiv. He served as Assistant General Manager in 1986, Chief Deputy General Manager in 2000, and General Manager at Ford Otosan in 2002. Between 2007 and 2009, Mr. Durak was the President of the Automotive Group at Koç Holding. From May 2009, he served as Deputy Chief Executive at Koç Holding, and was appointed CEO of Koç Holding in April 2010, becoming a Board Member. Mr. Durak was the Chairman of the Automotive Manufacturers Association between 2004 and 2010.

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

Levent Çakıroğlu
Board Member

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.

He began his career in 1988 as a Junior Accountant at the Ministry of Finance, and later worked as Accountant (1991-1997). 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. He joined 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 from 2010. Mr. Çakıroğlu is currently the CEO of Koç Holding A.Ş. since April 2015.

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

Kudret Önen
Board Member

Kudret Önen (born 1953, Istanbul) graduated from the Department of Mechanical Engineering at Gazi University. He joined Koç Group in 1975, working at Ford Otosan. In 1980 he was appointed as the R&D Manager at Koç Holding, and Assistant General Manager at Otogar in 1984. Between 1994 and 2005 he served as the General Manager at Otogar. After serving as the Co-President of the Other Automotive Companies Group within the Koç Holding in 2005, he served as the President of the Defence Industry and Other Automotive Companies Group of Koç Holding between 2006 and 2010. Since 2010, Mr. Önen has been serving as the President of the Defence Industry, Other Automotive and Information Technology Group within Koç Holding.

Pursuant to the CMB's Corporate Governance Principles, Mr. Önen is an executive board member, and therefore does not qualify to serve as an independent board member. Mr. Önen, whose appointments in the last decade have been stated above, currently serves on the Boards of several Koç Holding companies.



Ahmet Serdar Görgüç
Board Member -
General Manager

Ahmet Serdar Görgüç (born 1959, Izmir) graduated from the Department of Mechanical Engineering at Boğaziçi University; he 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 Centre. He served as the Automotive Unit Manager at the R&D Centre until 1985, and was appointed Advanced Projects Design Manager at Otokar in the same year. Mr. Görgüç served as Product Engineering Manager between 1989 and 1995, and as Assistant General Manager of Engineering between 1995 and 2005. He has been the General Manager of Otokar since 2006.

Pursuant to the CMB's Corporate Governance Principles, Mr. Görgüç is an executive board member, and therefore does not qualify to serve as independent board member. Mr. Görgüç, whose appointments in the last decade have been stated above, currently serves on the board of Otokar Otomotiv ve Savunma Sanayi A.Ş.



İsmet Böcügöz
Independent Board Member

İsmet Böcügöz (born 1943, Burdur) earned his Business degree from Istanbul University, Academy of Economics and Commercial Sciences. He worked as a Bank Inspector between 1968 and 1972, and joined Koç Group in 1972, working at the Finance Department of Tofaş. He served as Chief Accountant and Accounting Manager at Tofaş until 1995. Between 1995 and 2003, Mr. B Böcügöz was the Assistant General Manager in charge of Financial Affairs at Otokar, subsequently retiring from this position. Since 2012, he has been serving as an Independent Board Member at Otokar Otomotiv ve Savunma Sanayi A.Ş.

Pursuant to the CMB's Principles of Corporate Governance, Mr. Böcügöz who is non-executive, qualifies as an independent board member. Mr. Böcügöz, whose appointments in the last decade have been stated above, resigned from these duties after completing his term. Mr. Böcügöz has not executed any transactions with Koç Holding A.Ş. or Ünver Holding A.Ş. related parties at any time in the last five years.



Abdulkadir Öncül
Independent Board Member

Abdülkadir Öncül (born 1946, Amasya/Merzifon) earned his Business degree from the Faculty of Economics at Istanbul University. He began his professional career in 1970 at Otosan Otomotiv, and later served as the Finance Manager of Otokar between 1977 and 1984. Mr. Öncül was an executive at Doğan Group between 1984 and 2001, subsequently retiring from this position. Since 2012, he has been serving as an Independent Board Member at Otokar Otomotiv ve Sanayi A.Ş.

Pursuant to the CMB's Principles of Corporate Governance, Mr. Öncül who is non-executive, qualifies as an independent board member. Mr. Öncül has not executed any transactions with Koç Holding A.Ş. or Ünver Holding A.Ş. related parties at any time in the last five years.



Ahmet Nezih Olcay
Independent Board Member

Ahmet Nezih Olcay (born 1947, Beylerbeyi, 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 Director 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).

Pursuant to the CMB's Principles of Corporate Governance, Mr. Olcay who is non-executive, qualifies as an independent board member. Mr. Olcay has not executed any transactions with Koç Holding A.Ş. or Ünver Holding A.Ş. related parties at any time in the last five years.

SENIOR MANAGEMENT



Ahmet Serdar Görgüç
General Manager

Serdar Görgüç began his professional career in 1982 at the Koç Holding Automotive Division as a Project Engineer, and was later appointed to the position of Division Manager. The same year, he was appointed as the Advanced Projects Design Manager at Otokar Otomotiv ve Savunma Sanayi A.Ş., and served in that position until 1988. Mr. Görgüç worked as the Product Engineering Manager between 1989 and 1995, and as Assistant General Manager of Engineering between 1995 and 2005. He has been serving as the General Manager of Otokar since 2006. Mr. Görgüç graduated from Boğaziçi University, Department of Mechanical Engineering in 1981; he later earned a Master's degree in Business Administration from Istanbul University in 1983.



Hüseyin Odabaş
Assistant General Manager – Finance

Hüseyin Odabaş began his professional career at Koç Holding in 1989 as a Management Trainee and served as an Audit Expert between 1992 and 1994. He then served as an Accounting Manager at Ormak -a Koç Group Company- between 1994 and 1996 before working as an Accounting Manager at Otokar between 1996 and 2003. He has been serving as Assistant General Manager responsible for Finance since 2003. Mr. Odabaş graduated from the Department of Business Administration at Istanbul University in 1985.



Hasan Basri Akgül
Assistant General Manager - Domestic Market Sales and Marketing

Hasan Basri Akgül began his professional career at Tofaş in 1990 as a Regional Sales Assistant Manager and went on to serve as Regional Sales Manager between 1990 and 1992, Logistics Manager between 1993 and 1997, and Sales Coordinator in 1998. He has been serving as Assistant General Manager at Otokar responsible for Domestic Market Sales and Marketing since 1998. Mr. Akgül graduated from the Department of Mechanical Engineering at Istanbul Technical University in 1984; he later earned a Master's degree in the same discipline from Boğaziçi University in 1988.



Ali Rıza Alptekin
Assistant General Manager - Production and Procurement

Ali Rıza Alptekin began his professional career at Ford Otosan, a group company, in 1987 as a Product Development Engineer where he served until 1989. Mr. Alptekin then served as Quality Manager at Istanbul Piston ve Pim Sanayi between 1991 and 1993, as a Production Management Manager at Honda Turkey between 1993 and 2000, and as Procurement Director of Manufacturing at Honda UK between 2000 and 2006. He has been serving as the Assistant General Manager responsible for Production and Procurement at Otokar since 2006. Mr. Alptekin graduated from the Department of Mechanical Engineering at Boğaziçi University in 1989; he later earned a Master's degree in the same discipline from University of Clemson in 1991.



Murat Ulutaş
Assistant General Manager - Engineering

Murat Ulutaş began his professional career at Ford Otosan in 1992 as Product Development Assistant Manager and then served as Product Development Manager between 2001 and 2004, and as the Project Manager for the PUMA 15 Vehicle project in 2004 - 2005 at the same company. He has been serving as an Assistant General Manager at Otokar responsible for Engineering since 2006. Mr. Ulutaş graduated from the Department of Mechanical Engineering at Istanbul Technical University in 1991; he later went on to earn a Master's degree in the same discipline, also from Istanbul Technical University in 1993.

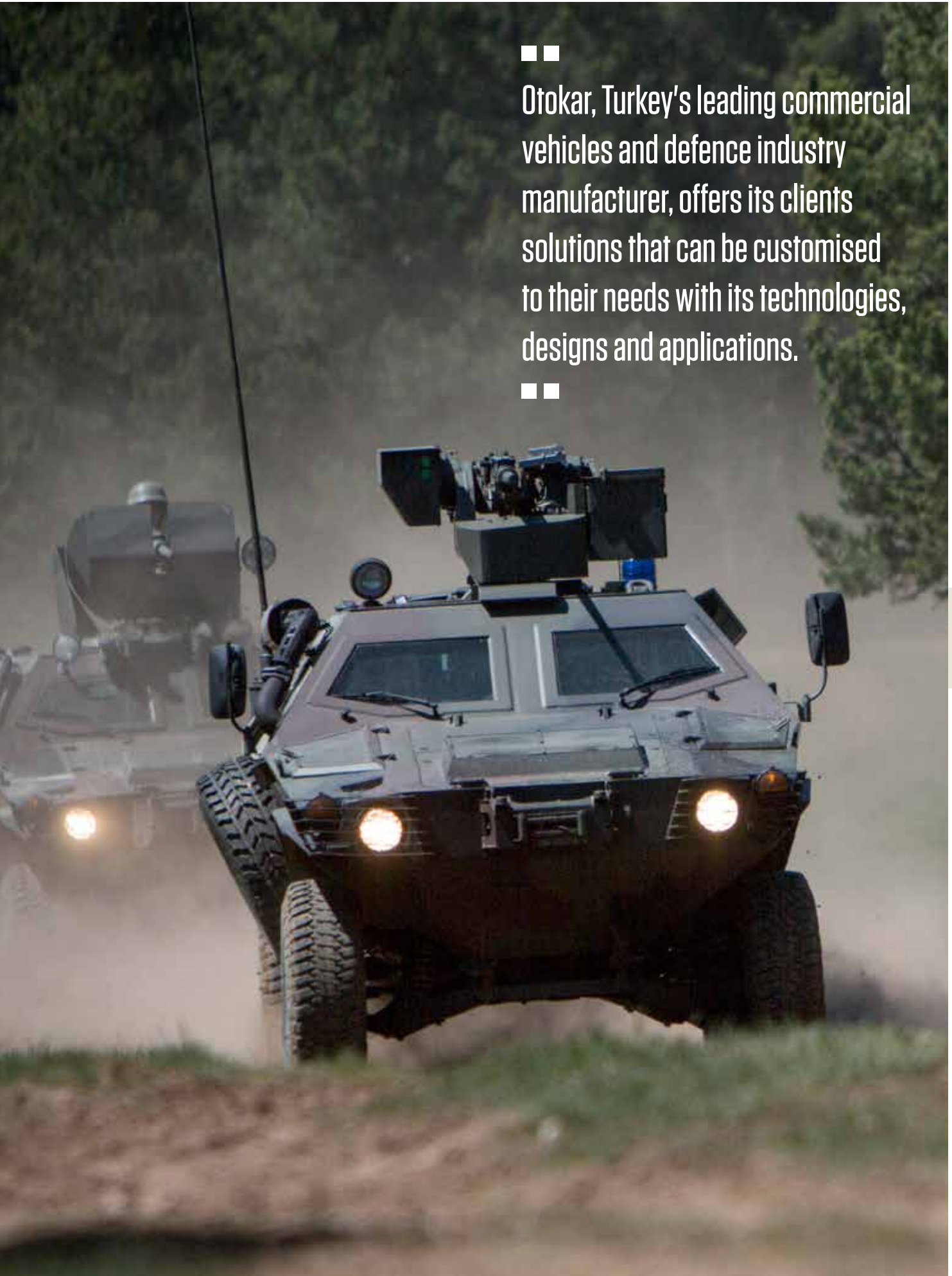


Mustafa Bakırcı
Assistant General Manager - Main Battle Tank and Armoured Tactical Vehicles

Mustafa Bakırcı began his professional career in 1980 as an R&D Engineer at TÜBİTAK Defence Industry Research and Development Institute before working for Aselsan as an R&D Engineer from 1983 to 1985. Starting his career at Otokar as a Project Engineer in 1985, he then went on to serve as the CAD Specialist between 1987 and 1989, as CAD Chief between 1989 and 1995, as R&D Manager between 1995 and 2006 and as R&D Director from 2006 to 2008. He has been serving as the Assistant General Manager at Otokar responsible for the Main Battle Tank and Armoured Tactical Vehicles since 2008. Mr. Bakırcı graduated from the Department of Mechanical Engineering at the Middle East Technical University in 1979 before completing a Master's degree in the same discipline, also from the Middle East Technical University, in 1981.



Otokar, Turkey's leading commercial vehicles and defence industry manufacturer, offers its clients solutions that can be customised to their needs with its technologies, designs and applications.



MILESTONES

Established in 1963 to manufacture buses and minibuses, Otokar started production for defence industry in 1987.

1960s

1963

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

1964

Production of Turkey's first intercity buses under Magirus license.

1967

Production and export of first small buses.

1968

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

1970s

1970

Production of first minibuses designed for mass transport.

1976

Joined the Koç Group.

1980s

1980

Design and production of Turkey's first armoured cash- in-transit 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

Production of Turkey's first tactical wheeled armoured vehicle and export of Turkey's first tactical armoured vehicle.

1995

Otokar IPO.

1997

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

1999

Otokar Pazarlama A.Ş. acquired.





2000s

2002

Merged with İstanbul Fruehauf A.Ş.

Design and production of the small bus "Navigo/Sultan", coming second in Turkish market share in the first year.

2003

Production of Turkey's first ADR- certified tanker.

2004

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

2005

Armoured internal security vehicle added to product range.

Design and production of Otokar branded semi-trailer.

2007

Medium-size bus "Vectio/Doruk" included in production plans. Production of Turkey's first hybrid bus.

2008

Named prime contractor for the modern main battle tank production project to meet the updated requirements of the Turkish Armed Forces.

Total production area expanded to 552,000 square metres.

2009

Mine-resistant armoured vehicle "Kaya" and 12-metre city bus "Kent" added to product portfolio.

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 multi-wheeled armoured vehicle, added to the product range, and received two export orders in the first year.

Became the best selling bus brand in Turkey.

2011

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

Armoured combat vehicle "Arma 8x8" added to product range.

Full-scale model of the national tank Altay presented to the public for the first time.

Otokar subsidiary, Otokar Europe founded in France.

2012

Otokar Tank Test Centre opened.

Turkey's first electric bus launched.

Received a 900-bus order from İETT (İstanbul Electricity, Tram and Tunnel Administration) for use in İstanbul.

Production of preliminary prototypes of the national tank Altay.

2013

Production of light commercial trucks commenced.

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

2014

ISO 10002 certification for customer satisfaction.

15 thousandth "Navigo" came off production line.

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

Otokar Electromagnetic Compatibility Test Centre accredited.

2015

Testing of the final two prototypes of Main Battle Tank Altay commenced at Turkish Armed Forces and the Undersecretariat for Defence Industries.

Kent Articulated Bus added to export portfolio.

Tulpar S Tracked Armoured Combat Vehicle and Arma 8x8 CBRN Reconnaissance Vehicle added to product range.

Awarded "Grand Award" in Defence Industry 2015 by the Undersecretariat for Defence Industries.

Most preferred bus brand in Turkey for the sixth consecutive year, and the leader of Turkey's small bus exports.





■ ■
OTOKAR IS A GLOBAL
COMPANY WITH 100%
LOCAL CAPITAL.
■ ■

HIGHLIGHTS OF 2015

Domestic and international defence orders delivered.



Testing of the final two prototypes of Main Battle Tank Altay commenced at Turkish Armed Forces and the Undersecretariat for Defence Industries.



Deal signed for the largest contract awarded to a Turkish company for right-hand drive buses, and an order of 176 buses received from Malta.

Turkey's best selling bus brand for the 6th consecutive year.

Became the most preferred small bus brand in France. The 150th bus was exported to Italy.



Kent Articulated Bus debuted at the Busworld Fair in Belgium.

Included in the BIST Sustainability Index.

Otokar ranked fifth in the Turkish Patent League at the Turkish Patent Awards.



Awarded “Grand Award” in Defence Industry 2015 by the Undersecretariat for Defence Industries.



Tulpar S Tracked Armoured Combat Vehicle and Arma 8x8 CBRN Reconnaissance Vehicle added to product range.

Granted OHSAS 18001 certification in Occupational Health and Safety.

Otokar won the Golden Glove, top prize at the Golden Glove OHS Implementation Awards organized by Turkish Employers' Association of Metal Industries (MESS).



COMMERCIAL VEHICLES PASSENGER TRANSPORTATION



In 2015 Otokar became Turkey's most preferred bus brand in the 25+ passenger capacity segment for the sixth consecutive year, and the leader of small bus exports.

Otokar designs and manufactures a variety of buses for different needs from public transportation to personnel and tourism-focused vehicles. As the best selling bus brand with the widest product portfolio in Turkey ranging from 7 metres up to 18.75 metres in length, today Otokar vehicles carry passengers in over 40 countries.

Following the slowdown in the first half of 2015, 35+ passenger capacity bus segment grew 47% -according to Turkish Automotive Manufacturers Association (OSD) data- with the impact of the activity observed particularly after October. Meanwhile the domestic medium size bus market expanded 10%. However, despite the 23% growth recorded in bus exports, the segment of medium size buses that carry 35 passengers or less shrank by 46% in units exported.

Leading bus brand

Otokar continued to grow in the urban, personnel and tourism transportation vehicle segments in the domestic market, while maintaining its leading position as the most preferred bus brand in the 25+

passenger capacity segment for the sixth consecutive year. In 2015, 1 out of every 3 buses sold in Turkey was Otokar.

Developing vehicles to meet client expectations, Otokar became the preferred bus brand of several municipalities in the city transportation vehicles segment in 2015. The company delivered the orders of Erzurum, Gaziantep, Konya, Aydın, Kayseri and Düzce municipalities. Otokar also continued to be the choice of leading transportation companies in the tourism and personnel buses segment.

Thanks to its ability to execute modifications at short notice to conform to specific requirements, Otokar has been enjoying great success in exports, and this resulted in 561 buses sold in international markets. While buses sold in Europe, the company's main export target, and Germany, Belgium, France, Spain and Italy in particular increased in number, Otokar also maintained its position as the most preferred small bus brand in France. According to OSD's 2015 data, Otokar realized more than

561 Buses exported
in 2015



176 Buses ordered by
Malta



half of Turkey small bus exports in terms of revenues.

Otokar added the likes of Malta and Benin to its list of export markets in 2015, increasing the number of countries served to more than 45, and the vehicles exported to over 3,500.

With Mediterranean countries showing great interest, Otokar delivered 143 Doruk buses to Malta, marking the largest right-hand drive bus export from Turkey. Thanks to high customer satisfaction, Otokar received an additional order of 33 Kent buses to be used by the Malta Public Transport Authority. The Company also



1 out of every
3 buses sold in
Turkey is Otokar.



exported its 200th vehicle to Tunisia, a long-time user of Otokar buses. With this latest sale, Tunisia has now become Otokar's largest export market, which the brand leads with most vehicles sold, after France and Italy in Europe. Meanwhile Slovenia continued to be the Central European country where Otokar has the highest market share. The Company debuted the

Kent articulated bus at the Busworld Fair in Belgium, and tripled its sales in this market compared to 2014.

Otokar participated in several fairs throughout 2015 to promote its bus range across Europe, and exhibited various vehicles in Italy, Cyprus, Belgium, Latvia, Estonia and Bulgaria.



COMMERCIAL VEHICLES CARGO TRANSPORTATION

Otokar plays the lead role in the trailer segment with the technologies it develops and the customised designs to suit different needs.



Otokar operates in the cargo transportation segment with trailers for the logistics sector as well as the light trucks added to the product range in 2013.

Trailers

Although the issues on the Turkish borders affected the international logistics sector negatively in 2015, trailer segment attained growth in Turkey with the dynamism of the construction sector in the domestic market and the implementation of new regulations like the ADR. Expanding its trailer range with products customised to suit client needs and expectations, Otokar stood apart in 2015 with its offerings for the domestic transportation sector. Pioneering the market with new technologies and conforming with international standards and regulations, Otokar continued its success in hazardous goods, perishable food and domestic

transportation vehicles with ADR-certified tankers and refrigerated semi-trailers.

As a major player in the trailer segment with the technologies it develops and custom-designs to suit different needs, Otokar proved its claim in the market with the trailers delivered in 2015.

Trucks

The truck segment in which Otokar has been active for the last one and a half years was quite dynamic in 2015, and production for the domestic light weight truck segment increased 42%. The number of Atlas in use, with features including design, durability, load capacity and low maintenance costs, increased throughout the year, and in municipal services in particular. Meanwhile the Company also strengthened Atlas' dealer network to reinforce its position in the market.







AS THE LARGEST TURKISH
PRIVATE CAPITAL DEFENCE
INDUSTRY COMPANY,
OTOKAR IS THE LEADING
MANUFACTURER OF LAND
DEFENCE SYSTEMS.



DEFENCE INDUSTRY



In 2015, Otokar maintained its position as Turkey's leading land systems manufacturer. Cobra II is included in Turkish Armed Forces Inventory and Otokar exported first Ural.

Today, more than 29,000 military vehicles manufactured by Otokar are used in over 30 countries in 5 continents. As the largest Turkish private capital defence company, and the leading manufacturer of Turkey's land defence systems, Otokar designs, develops and manufactures products to meet the expectations and requirements of clients, with an offering that includes tactical wheeled and tracked armoured vehicles ranging from 3/4 tonnes to 60 tonnes, as well as turret systems. Otokar is a registered supplier to NATO and the UN. Export of all the military vehicles and turret systems are subject to the requirements of related governments' export licence regulations.

Global defence industry downsized 1.3% in 2015. On the other hand, prioritization of national projects and giving first preference to local manufacturers to reduce dependency on foreign resources impacted the Turkish defence industry positively. 2015 saw Otokar maintain its position as Turkey's leading land defence systems manufacturer. Otokar also added Arma 8x8 CBRN reconnaissance vehicle and Tulpar-S

tracked armoured vehicle to its product portfolio. The outstanding performance of the Company in the last three years was recognized by the Undersecretariat for Defence Industries with Grand Award in 2015 Defence Industry.

Turkey's leading land defence vehicles manufacturer

In 2015 Otokar completed the concept design, development processes and prototype productions in accordance with the Main Contract for Phase I Turkish Main Battle Tank Design and Prototype Production signed on July 29, 2008 within the frame of the "Modern Tank Production with National Capabilities Project" (Altay Project).

The system qualification and acceptance tests of Altay, designed and developed in accordance with the technical and tactical requirements of the Turkish Armed Forces by Otokar as the prime contractor continue as planned.

The proposal for Phase II Serial Production Project regarding the production of 250 battle tanks and their Integrated Logistic

Otokar was awarded by the Undersecretariat for Defence Industries with Grand Award in 2015 Defence Industry.

30+

Countries use Otokar's land systems




Support operations within the relevant articles of the current contract was submitted to the Undersecretariat for Defence Industries on January 18, 2016. The Undersecretariat is now expected to form its opinion on serial production following the evaluation of the submitted proposal.

Otokar received the first domestic orders for the Cobra II vehicle in 2015, and delivered the orders of Ural and Cobra vehicles manufactured for domestic security forces on time. Otokar also continued to promote its own designed and developed military vehicles and turret systems in the domestic and international markets.

Otokar, as an expert in land defence vehicles, received new orders for various armoured vehicles to be used in the United Nations Peacekeeping Forces in 2015. The first export of Ural 4x4 vehicles also took place during the year. Otokar continued to promote its products in different markets. Exhibiting in London (UK), Kielce (Poland), Bangkok (Thailand) and Abu Dhabi (UAE), Otokar introduced its own designed and developed military vehicles and turret systems for which the company is known worldwide.



R&D ACTIVITIES

A photograph of the Otokar AR-GE building, a large industrial structure with a prominent red sign that reads "Otokar AR-GE". The building is surrounded by a green lawn and a black metal fence. In the background, a cityscape and hills are visible under a clear sky.

Otokar R&D Centre houses a Climatic Test Chamber with Dynamometre, the one and only of its kind in Turkey, and among the top few in Europe, and Turkey's highest capacity hydraulic road simulator as well as Turkey's largest and the world's best state-of-the art Electromagnetic Compatibility Test Centre.

In the last decade Otokar has invested TL 310 million in total, corresponding to 3.8% of its total turnover for the period, in R&D to develop products that meet customer demands and requirements. The Otokar R&D Centre features simulators and testing equipment to test the products more rapidly with state-of-the art technologies, and computer systems to create and utilize information.

The Otokar R&D Centre houses a Climatic Test Chamber with Dynamometre, the one and only of its kind in Turkey, and among the top few in Europe, and Turkey's highest capacity hydraulic road simulator. The Centre is also home to Turkey's largest and the world's best state-of-the art Electromagnetic Compatibility Test Centre (EMC/EMI), which was accredited in 2013 by the Turkish Accreditation Agency, certifying that the Centre complies with TS EN ISO/IEC 17025:2012 standards, as well as all relevant regulations and communiqués. The Centre also serves as an independent accreditation centre for the R&D work of local and foreign automotive and defence industries. Otokar further houses some of the

world's most advanced and modern mine testing equipment and a ballistics laboratory for defence industry products. Otokar offers the testing capabilities of its R&D Centre to the use of different industries and companies. To promote this feature further, Otokar participated in the 2015 Automotive Testing Show & Expo in Istanbul, which brings together companies with testing, simulation and development capabilities, and others seeking such opportunities.

Otokar files patent applications for the products and subsystems it develops, and currently holds 246 patents and utility models. The Company ranked fifth in the Patent League with 68 patent applications filed in 2014 at the 4th Turkish Patent Awards organized by the Turkish Patent Institute. The Company conducts periodic trainings on the intellectual property concept and patent applications, providing entrepreneurial support for interested employees, and the R&D Centre staff in particular.

In the last three years, Otokar published 18 research papers locally and internationally.

Otokar ranked fifth in the Patent League with 68 patent applications at the 4th Turkish Patent Awards organized by the Turkish Patent Institute.

246

Patents and utility models owned



The Company, while conducting R&D activities, always keeps prospective requirements in mind, and develops applications and hardware to cater to the services of the future. Otokar takes active part in the EU-funded CoMoSeF (Cooperative Mobility Services of the Future) project along with over 20 stakeholders from 8 countries.

As part of the project that aims to develop and deploy intelligent traffic systems, scenarios to improve road safety such as "Intersection

Collision Warning", "Traffic Rule Violation Warning", "Dangerous Zone Warning" and "Priority Vehicle Warning" were addressed in 2015. The project envisions developing wireless connections with V2X infrastructure using 802.11.P protocol.

The concepts of AEBS (Advanced Emergency Brake System) and LDW (Lane Departure Warning) systems deployed in late 2015 were designed at the Otokar R&D Centre.



CREATING VALUE FOR STAKEHOLDERS

Otokar constantly measures the satisfaction of its clients and business partners, while improving the communication tools to ensure closer contact with the users.



Clients

In addition to engaging with customers in close to 300 sales and service points, Otokar also provides assistance to the clients with the Integrated Logistic Support System for military vehicles. Customer satisfaction is essential for Otokar, which strives to be available for clients at all times and to respond to their demands and needs rapidly, knowing that after-sales services are of utmost importance. Otokar develops projects that focus on improving customer satisfaction and after-sales strategies, and sets the bar higher for service standards in the industry.

After its certification in 2014 for compliance with ISO 10002, which enables systemisation of customer satisfaction and standardization of related activities, Otokar continues to follow a development-focused path in all areas from production to sales. To that end, the Company conducted Sales Process Management training for bus and truck dealers, and also met with representatives from authorized services to improve customer satisfaction in after-sales services further. The company launched its new service management system, which was developed to ensure that all after-sales services are delivered in the same standards, in 31 authorized technical services in 2015, and aims to complete implementation in all services by the end of 2016. The special project that the Company developed in partnership with suppliers to track and ensure faster delivery to spare parts dealers and technical services, and to respond more rapidly to customers also improved efficiency and customer satisfaction in 2015.

In addition, the company continued its activities aimed at strengthening and further improving the collaboration between the industry, universities and the public.

Otokar hosted numerous potential local and foreign buyers and clients at its plant, and found the opportunity to inform them about the product range and learn about their expectations and needs.

Shareholders

Otokar always strives to create continuous value for its shareholders as a key principle, and holds meetings, conferences, and teleconferences with local and foreign corporate or individual investors, as well as existing and prospective local and international shareholders for this purpose. The Company, in line with transparency principles, informs investors and shareholders about its activities.

Suppliers

In line with the general policies of Koç Holding and Otokar, and in compliance with the United Nations Global Principles and Koç Holding Procurement Management System, the company considers all local and global supply alternatives - starting with the suppliers in closer proximity for a competitive edge in both domestic and international markets - intending to build, maintain and improve long-term business relationships based on mutual trust and cooperation.

Aiming at creating and managing a competitive Supply Chain in compliance with international standards in terms of quality, delivery, cost and cooperation, Otokar prefers suppliers that invest in technological developments and human resources, and that respect the environment and human health, while also supporting the development of its existing suppliers in these areas.

The Company procured direct materials from 451 local and 260 foreign suppliers, totalling 711, and worked with 413 suppliers for the procurement of indirect materials and services.

PRODUCTIVITY

In 2015, the projects implemented to increase efficiency resulted in important outcomes.

In addition to elevating the satisfaction level of its internal customers to improve efficiency, Otokar also focused on enhancement and quality topics. The projects implemented in these areas resulted in important outcomes.

Otokar has launched the "Employee Assistance Programme" to support employees in finding balance between their work and personal lives, and now provides 24/7 phone assistance to employees who face issues in their personal lives. The program offers support in various forms to Otokar employees from work-private life balance to advice on psychological, medical, financial and legal matters.

In 2015, a total of 153 projects on a range of topics from cost and quality to delivery terms, internal customer satisfaction and environment were implemented at Otokar. The Otokar Suggestion and Reward System to reward employees for their efficiency-increasing suggestions received 2,517 submittals in 2015.

Otokar once again participated in the "Most Successful Koç Employees" Award System with several projects. Among the total 88 projects submitted by 20 companies competing for the "Most Successful Koç Employees Award", Otokar's was among the 30 finalists. The Company's project titled "Luggage Compartment Door Alignment Problem" won the award in the Creating Customer Satisfaction (Blue Collar) category.

Otokar's Awards in 2015

- Turkish Patent Awards
Fifth Prize in Patent League
- Undersecretariat for Defence Industries
Grand Award in 2015 Defence Industry
- MESS Golden Glove OHS Implementation Awards
Golden Glove
- Istanbul Gelişim University
Best Automotive Company
- Turkish Automotive Manufacturers Association
40. Anniversary Excellence in Exports Awards Gold Medal

2,517 Suggestions submitted to the Otokar Reward and Suggestion System in 2015







OTOKAR IS TURKEY'S MOST
PREFERRED BUS BRAND IN THE
25+ PASSENGER CAPACITY
SEGMENT FOR THE SIXTH
CONSECUTIVE YEAR.



SUSTAINABILITY

Otokar implemented numerous projects to develop environment friendly products and production processes in 2015.

Sustainability

Otokar's sustainability strategy, defined as environment friendly and committed to ethical business principles, is to preserve its local capital structure and to increase its profits through a business model that aims for operational excellence focused on developing value added products based on high technologies that fully meet customer expectations.

Otokar adopts and actively supports the UN Global Principles signed by Koç Holding in 2006 on behalf of all the Group companies. In compliance with these principles, the Company has implemented numerous projects to develop products and production processes friendly with the environment, which is essential to the sustainability programme. These activities that the Company has carried out with the purpose of creating long-term value by incorporating economic, environmental and social factors with corporate governance principles are detailed in the Otokar Sustainability Report, which can be accessed on the corporate website.

Following assessments according to "Index Selection Criteria" determined by Borsa Istanbul, Otokar was found to meet these criteria in 2015 and included in the BIST Sustainability Index, which currently consists of 29 companies.

Otokar will be included in the BIST Sustainability Index, composed of stocks of Borsa Istanbul-listed companies

with high corporate sustainability performance, in the November 2015-October 2016 period.

Environment

Otokar carries out successful environmental activities by adhering to adopted policies and systems. The Company has achieved significant savings through the improvements and enhancements implemented. The Trailer Water Recovery Project, which involves the recovery of water used in tanker calibration and hydrostatic tests, improved the annual water savings by 3%, while the hazardous waste quantity decreased approximately 7% per unit thanks to the enhancements and awareness trainings.

Some of the projects Otokar implemented in 2015 include Increasing Lighting Efficiency in Production Fields, Replacing Inefficient Spotlights used in Perimeter Lighting with LED Lights, and using Timers in Compressors. Otokar also participated in the team that prepares the report on Climate Change and Greenhouse Gas Emissions – Best and Worst Scenarios for Koç Holding companies. The company also submitted the Preliminary Action Form filled out within the frame of greenhouse gas monitoring plans and the Regulation on Control of Soil Pollution and Point-Source Pollution Sites to the Ministry of Environment and Urban Affairs.

Otokar continued to conduct environmental trainings throughout the year. The company carried out a social

33% Increase in total training time in 2015

61,150 person-hours of training



responsibility project by providing environment and energy themed trainings for elementary, middle and high school students at three schools to raise awareness among the future generations.

Human Resources

In 2015, Otokar provided 61,150 person-hours of training to its employees, the Company's most important asset, resulting in 33% increase in total training time compared to the previous year. Training time per person averaged 23.6 hours.

Approximately 200 white-collar employees participated in a variety of behavioural trainings on topics such as effective presentation techniques, problem solving and decision making, effective communication, stress management, time management, emotional intelligence, negotiation and persuasion techniques, and body language.

With the addition of new staff, total number of employees at the Otokar R&D Centre reached 484 at the end of 2015. Following new hiring efforts, Otokar now has 1,484 blue-collar and 621 white-collar employees.

The training courses Otokar launched in 2013 in partnership with İşkur offering 50% employment guarantee continued in 2015. The Company provided 16 people with the opportunity to attend Auto- Body Paint courses, and 9 people Welding courses. Following the trainings, Otokar hired 15 people as Auto-Body Painters, and 6 as Welders on contract.

As part of the University-Industry Collaboration projects, 31 students benefited from long-term traineeship opportunity at Otokar. Furthermore, 181 students had the chance to complete their mandatory summer trainings at the Company. Meanwhile 104 seniors from industrial vocational high schools were given traineeship opportunity within the frame of the National Education-Industry Collaboration project to contribute to raising qualified workforce.

Otokar organized several social events and sports activities throughout the year to improve motivation and communication within the Company, and also participated in the 26th Koç Group Sports Festival and competed in the football, track and tennis branches.

Otokar's occupational health and safety (OHS) improvement and enhancement activities continued.



1,145 people received
entry-level OHS training



23,61 hours average
training per person



While 1,145 people participated in entry-level OHS training, 502 people took OHS refresher courses, and 127 employees of subcontractors also took basic OHS training. Otokar's quality in this field was confirmed with the OHSAS 18001 Occupational Health and Safety Management System Certification. On the other hand, the "Automatic Sand Collection System" implemented in trailer production earned Otokar the Golden Glove at the MESS Golden Glove OHS Implementation Awards organized by Turkish Employers' Association of Metal Industries (MESS).

Corporate Social Responsibility

In addition to the corporate social responsibility activities carried out to contribute to the educational, cultural and health development of the community, Otokar also supports the volunteering efforts initiated by the employees.

Otokar continued to support the activities of athletes with disabilities in Sakarya, and sponsored not only

the second national Physically Disabled Table Tennis Turkey Championship in Sakarya, but also an Otokar employee's child who has been successful in swimming championships for the disabled.

Another social initiative that Otokar joined in 2015 was the "Gender Equality" campaign carried out by Koç Group within the frame of "For My Country" project. Approximately 700 employees benefited from trainings in 2015 that aimed to raise awareness among the public about the causes and consequences of gender inequality.

Having adopted the Declaration on Gender Equality in the Workplace in 2013, Otokar actively supported UN Women's HeForShe campaign in 2015. Steps were taken toward women's employment and adjustments to ease the burden on women in the workplace. Meanwhile, Otokar Women's Club also implemented several social responsibility projects on health, education and professional life.



FUTURE

Otokar aims at further improving its success in its existing markets and opening to new markets.



Due to the price increases that will result from the new regulations enforced in Turkey as of 2016 as well as the legislation applicable for vehicles with engines in Euro 6 emission standards, slowdown is predicted for the commercial vehicles market. However, the city bus segment is expected to enter an upward trend with the effect of deferred demand from last year. Aiming to maintain its lead position in the Turkish bus market in 2016, Otokar is also planning to build on its success in its existing markets, and Europe in particular, and to open to new markets.

Also predicting slowdown in the international logistics sector considering the developments on the country's borders but expecting dynamism in the domestic transportation sector, Otokar aims to increase its market share by introducing new products in the trailer segment for domestic requirements. With users becoming more knowledgeable about hazardous goods and perishable food transportation, and complying with regulations, the sales are expected to increase.

Otokar has been structuring its sales organization in the light truck segment, and will continue in this direction in 2016. As the brand recognition increases, Otokar also aims to take a larger market share from the light truck segment.

With national projects gaining prominence in the defence industry, Otokar will be focusing on the production of domestic and international orders received last year. Having submitted a proposal for the serial production of the Main Battle Tank Altay and its

integrated logistic support systems within the frame of the current contract, which Otokar signed in 2008 as the prime contractor, the company is preparing to do its part in the best possible manner. With the first phase of the Altay Project set to be completed in 2016, the interest of the friendly and allied countries in the Altay battle tank is a clear sign that the exports of the Turkish defence industry will also increase in the long term. Otokar also works on different projects for international markets and carries out promotion activities aimed at presenting its products to the armed forces and security forces of friendly and allied countries, and plans to add new clients to its existing portfolio.

Otokar will continue to support the "Gender Equality" campaign launched in 2015 by Koç Group within the frame of "For My Country" project this year too, while carrying out further projects for the educational, cultural and health development of the community. The Company also aims to provide contribution to the development of technologies for a better life by making Otokar R&D Centre available for the use of different industries.



CORPORATE GOVERNANCE

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CORPORATE GOVERNANCE

MEETING AGENDA

AGENDA OF THE ANNUAL GENERAL ASSEMBLY MEETING OF OTOKAR OTOMOTİV VE SAVUNMA SANAYİ A.Ş. ON MARCH 28, 2016

1. Opening and election of the Chairmanship Committee
2. Presentation for discussion and approval of the Annual Report of the Company for the year 2015 as prepared by the Board of Directors
3. Presentation of the summary of the Independent Audit Report for the 2015 fiscal year
4. Presentation for discussion and approval of the Financial Statements of the Company for the 2015 fiscal year
5. Release of each member of the Board of Directors from liability for the affairs of the Company in 2015
6. Approval, approval with modifications, or disapproval 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
7. Resolution on 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
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
9. Resolution of the annual gross salaries to be paid to the members of the Board of Directors
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.
11. Presentation to the shareholders, of the donations made by the Company in 2015, and resolution of an upper limit for donations to be made in 2016
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 year 2015 pursuant to the Corporate Governance Communiqué of the Capital Markets Board
13. Wishes and opinions

CORPORATE GOVERNANCE

MEMBERS OF THE BOARD OF DIRECTORS AND COMMITTEES

MEMBERS OF THE BOARD OF DIRECTORS AND COMMITTEES

Board of Directors	Title	Beginning	Ending
Yıldırım Ali Koç	Chairman	26.03.2015	28.03.2016
Halil İbrahim Ünver	Vice Chairman	26.03.2015	28.03.2016
Osman Turgay Durak	Member	26.03.2015	28.03.2016
Levent Çakıroğlu	Member	26.03.2015	28.03.2016
Kudret Önen	Member	26.03.2015	28.03.2016
Ahmet Serdar Görgüç	Member - General Manager	26.03.2015	28.03.2016
İsmet Böcügöz	Independent Member	26.03.2015	28.03.2016
Abdulkadir Öncül	Independent Member	26.03.2015	28.03.2016
Ahmet Nezi Olcay	Independent Member	26.03.2015	28.03.2016
Audit Committee	Title	Beginning	Ending
İsmet Böcügöz	Chairman	26.03.2015	28.03.2016
Abdulkadir Öncül	Member	26.03.2015	28.03.2016
Corporate Governance Committee	Title	Beginning	Ending
İsmet Böcügöz	Chairman	26.03.2015	28.03.2016
Levent Çakıroğlu	Member	26.03.2015	28.03.2016
Hüseyin Odabaş	Member	26.03.2015	28.03.2016
Risk Management Committee	Title	Beginning	Ending
Abdulkadir Öncül	Chairman	26.03.2015	28.03.2016
Kudret Önen	Member	26.03.2015	28.03.2016

- 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 2015 have been included in Note 27 of the financial statements for the 2015 fiscal year.
- Detailed information on committees and their operating principles have been provided in the Corporate Governance Principles Compliance Report included in the annual report and the Company's corporate website (www.otokar.com).
- Pursuant to management decision during the year, Board of Directors has been informed about the activities of the Board Committees in 2015.
- During 2015, Audit Committee has met 5 times, Corporate Governance Committee 7, and Risk Management Committee 7 times, respectively. The meetings have been held with the attendance of all committee members.

CORPORATE GOVERNANCE

CVs OF THE CANDIDATES FOR THE BOARD OF DIRECTORS

Yıldırım Ali Koç (Board of Directors Candidate)

See Page 20 Board of Directors' CVs

Halil İbrahim Ünver (Board of Directors Candidate)

See Page 20 Board of Directors' CVs

Osman Turgay Durak (Board of Directors Candidate)

See Page 20 Board of Directors' CVs

Levent Çakıroğlu (Board of Directors Candidate)

See Page 20 Board of Directors' CVs

Kudret Önen (Board of Directors Candidate)

See Page 20 Board of Directors' CVs

Ahmet Serdar Görgüç (Board of Directors Candidate)

See Page 21 Board of Directors' CVs

İsmet Böcügöz (Independent Member Candidate)

See Page 21 Board of Directors' CVs

Abdulkadir Öncül (Independent Member Candidate)

See Page 21 Board of Directors' CVs

Ahmet Nezih Olcay (Independent Member Candidate)

See Page 21 Board of Directors' CVs

CORPORATE GOVERNANCE

DECLARATIONS OF INDEPENDENCE OF THE BOARD OF DIRECTORS CANDIDATES

I was nominated to serve as "independent member" in Otokar Otomotiv 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 had 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 or 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 fulfil the duties on the grounds of my title as an independent board member,

d) I will not work in 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 have 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 in total,

j) On behalf of the legal entity as a board member, I am not registered or announced.

İsmet Böcügöz

Abdulkadir Öncül

Ahmet Nezih Olcay

CORPORATE GOVERNANCE

REMUNERATION POLICY FOR MEMBERS OF THE BOARD OF DIRECTORS AND SENIOR MANAGEMENT

This policy document identifies the remuneration system and practices concerning our Board Members and Senior Management who hold administrative responsibility in line with CMB regulations.

A fixed remuneration is determined for all Members of the Board at the Ordinary General Assembly of the Company each year.

Additional payment is provided to Executive Members of the Board in accordance with the policy established for the Senior Management.

A bonus is determined by the Board of Directors to be paid to members of the Board who take part in committees formed by the Board of Directors at the Company, in consultation with the Corporate Governance Committee by taking into account such committee members' contributions, attendance in the meetings, functions, etc.; the bonus is paid at the end of the year.

In respect of the remuneration of independent members of the Board of Directors, a payment plan based on the performance of the Company may not be applied.

Pro rata payment is offered to members of the Board of Directors by taking into account the time they have allocated to their duty between their date of appointment and their date of resignation. Expenses incurred by members of the Board of Directors on account of providing contributions to the Company (such as transportation, telephone expenses, insurance, etc.) may be paid by the Company.

The remuneration of Senior Management consists of two components; fixed and performance based payments.

The fixed salaries of Senior Management are determined in accordance with international standards and legal obligations by taking into account the macroeconomic data in the market, the salary policies prevailing in the market, the size and long term targets of the Company and the positions of the persons.

Bonuses for the senior management are calculated according to the bonus base, the performance of the Company and the individual performance. A summary of the criteria is as follows:

- **Bonus Base:** Bonus bases are updated at the beginning of each year. They vary depending on the work volume of the positions of the senior managers. When updating the bonus bases, the bonus policies for senior management applied in the market are taken into account.
- **Performance of the Company:** The performance of the Company is determined at the end of the year by measuring the financial and operational targets (market share, exports, international operations, productivity, etc.) assigned to the Company at the beginning of each year. In setting out its targets, the Company ensures that the success is sustainable and incorporates improvements over the previous years.
- **Individual Performance:** Targets related to employees, customers, processes, technology and long term strategy are taken into account along with the targets of the Company in measuring an individual's performance. In line with the performance of the Company, the principle of achieving a long term sustainable improvement in areas besides financial areas is observed in measuring individual performance.

In the event of any of our Senior Management's resignation, a resignation premium may be paid by taking into consideration the term of appointment, term of senior manager, provided contribution, last target premium before resignation date, salary in the final year and premium information.

Total amounts as determined based on these principles and paid to members of the Board of Directors during the year are submitted to the approval of the shareholders during the following Ordinary General Assembly.

CORPORATE GOVERNANCE

BOARD OF DIRECTORS REPORT OF OTOKAR OTOMOTİV VE SAVUNMA SANAYİ A.Ş.
FOR THE PERIOD 01.01.2015-31.12.2015

Dear Shareholders,

Our Company presents to the Annual General Assembly and the public its financial reports regarding its activities in 2015, prepared in accordance with Turkish Accounting Standards/Turkish Financial Reporting Standards, which were implemented by the Public Oversight Accounting and Auditing Standards Authority (KGK) pursuant to Capital Market Board's (CMB) "Communiqué on the Principles of Financial Reporting in Capital Markets", numbered II-14.1. Appendices and comments related to these standards were also considered in preparing financial tables.

Members of the Board of Directors, their terms of office and authority limits resolved at the Ordinary General Assembly on March 26, 2015 are listed below:

Board of Directors			
		Terms of Office	
Name & Surname	Title	Begins	Ends
Yıldırım Ali KOÇ	Chairman	26.03.2015	28.03.2016
Halil İbrahim ÜNVER	Vice Chairman	26.03.2015	28.03.2016
Osman Turgay DURAK	Member	26.03.2015	28.03.2016
Levent ÇAKIROĞLU	Member	26.03.2015	28.03.2016
Kudret ÖNEN	Member	26.03.2015	28.03.2016
Ahmet Serdar GÖRGÜÇ	Member - General Manager	26.03.2015	28.03.2016
İsmet BÖCÜGÖZ	Independent Member	26.03.2015	28.03.2016
Abdülkadir ÖNCÜL	Independent Member	26.03.2015	28.03.2016
Ahmet Nezh OLCA	Independent Member	26.03.2015	28.03.2016

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

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

Committee	Chairman	Member
Audit Committee	İsmet BÖCÜGÖZ	Abdülkadir ÖNCÜL
Risk Management Committee	Abdülkadir ÖNCÜL	Kudret ÖNEN
Corporate Governance Committee	İsmet BÖCÜGÖZ	Levent ÇAKIROĞLU, Hüseyin ODABAŞ

Capital and Ownership Structures

As of December 31, 2015, the registered capital ceiling is TL100 million, while the issued capital stands at TL24 million. Shareholders who hold more than 10% of the capital, the number of shares they hold and the percentage of these shares in the capital are as follows:

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

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

CORPORATE GOVERNANCE

BOARD OF DIRECTORS REPORT OF OTOKAR OTOMOTİV VE SAVUNMA SANAYİ A.Ş. FOR THE PERIOD 01.01.2015-31.12.2015

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

Since the operations of Otokar Europe SAS do not materially affect the financial statements, it has not been subjected to consolidation, and has been carried at historical cost value.

Amendments to the Articles of Association

No amendments have been made to the articles of Association at the Annual General Assembly on March 26, 2015.

Dividends Distributed in the Last Three Years and Their Percentages

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

Period	%
2012	266.67
2013	416.67
2014	333.33

The entire dividend pertaining to the 2014 accounting period was paid to our shareholders in cash, starting from April 2, 2015.

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

AUTOMOTIVE INDUSTRY AND OTOKAR

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

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

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

The development processes and prototype productions in accordance with the Main Contract for Phase I Turkish Main Battle Tank Design and Prototype Production have been completed while the System Qualification and Acceptance Tests, the last phase of the Project, continue.

Furthermore, the proposal for Phase II Serial Production Project regarding the production of 250 battle tanks and their Integrated Logistic Support operations within the relevant articles of the current contract was submitted to the Undersecretariat for Defence Industries on January 18, 2016. The Undersecretariat is now expected to form its opinion on serial production following the evaluation of the submitted proposal.

THE MARKET - SALES – PRODUCTION

The developments observed in the industry during 2015 can be summarized as follows, based on OSD (Automotive Manufacturers Association) data:

- Transportation vehicles production increased 16% in January-December 2015 compared to the same period of 2014, totalling 1,359,000 units, while automobile production rose 8%, and totalled 791,000 units.

However, transportation vehicles market expanded 25% in 2015, and total 1,011,000 units were sold.

CORPORATE GOVERNANCE

BOARD OF DIRECTORS REPORT OF OTOKAR OTOMOTİV VE SAVUNMA SANAYİ A.Ş. FOR THE PERIOD 01.01.2015-31.12.2015

Production developments in 2015 compared to the same period of the previous year are listed below in vehicle categories:

- Light commercial vehicle segment
33% increase in minibuses
34% increase in midi-buses
31% increase in pickups

- Heavy commercial vehicles segment
36% increase in buses
6% increase in large size trucks
42% increase in small size trucks

The sales of imported light commercial vehicles increased 31% while this rate was recorded as 38% for locally produced light commercial vehicles.

The market share of imports in this period was 44%.

PRODUCTION AND SALES

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

	2015		2014		Change (Units)		Change %	
	Production	Sales	Production	Sales	Production	Sales	Production	Sales
Small Buses	2,817	2,258	2,078	1,975	739	283	36	14
Buses	714	608	406	454	308	154	76	34
4x4 Off-Road Vehicles	72	71	70	67	2	4	3	6
Armoured Tactical Vehicles	481	487	353	368	128	119	36	32
Trailers	999	1007	1,423	1,417	(424)	(410)	(30)	(29)
Light Trucks	531	295	359	463	172	(168)	48	(36)
TOTAL	5,614	4,726	4,689	4,744	925	(18)	20	(0)

The revenues in 2015 reported in the non-consolidated financial statements prepared in accordance with the applicable regulations show approximately 16% increase compared to the same period of the previous year.

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

	2015 (TL)	2014 (TL)	Change %
Domestic Sales	1,014,925,095	994,226,341	2
International Sales	419,042,792	237,407,431	77
Total	1,433,967,887	1,231,633,772	16

Our international sales totalled USD 149,137,561 in 2015 (2014: USD 108,403,361), with a 29% share (2014: 19%) in total turnover.

Our total capacity utilization in 2015 was 51% (2014: 43%).

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

CORPORATE GOVERNANCE

BOARD OF DIRECTORS REPORT OF OTOKAR OTOMOTİV VE SAVUNMA SANAYİ A.Ş.
FOR THE PERIOD 01.01.2015-31.12.2015

INVESTMENTS

Otokar continued its investments in 2015 with the previously started "Otokar R&D Centre" investments, making a crucial decision in the area of research and development with a view to achieving its rapid growth target with vehicles for which the intellectual rights are owned by Otokar.

Total investments amounted to approximately USD 3 million at the end of 2015.

ADMINISTRATIVE ACTIVITIES

The names and positions of the senior executives of our Company in 2015 are listed below:

Name-Last Name	Position
Ahmet Serdar GÖRGÜÇ	General Manager
Hüseyin ODABAŞ	Assistant General Manager - Finance
Ali Rıza ALPTEKİN	Assistant General Manager - Production and Supply
Murat ULUTAŞ	Assistant General Manager - Technical
Hasan Basri AKGÜL	Assistant General Manager - Sales and Marketing
Mustafa BAKIRCI	Assistant General Manager - Main Battle Tank and Armoured Tactical Vehicles

As of December 31, 2015 our Company has 2,105 employees in total (2014: 2,054). Of these employees, 621 (2014: 618) are administrative and office personnel, and 1,484 (2014: 1,436) are factory workers. No incidents of disputes or labour movements were observed during the year.

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

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

Our Company's Corporate Governance Rating rose from 91.99 (9.20) in 2015 to 92.81 (9.28) in 2014.

Aiming at continually improving the value added to the society and contributing more to building a better future, the company's activities in social, economic and ethical dimensions have been detailed in the 2014 Otokar Sustainability Report, which can be accessed on the corporate website www.otokar.com.

FINANCIAL RESULTS

Our Company presents to the public its 2015 non-consolidated financial statements, which have been prepared in accordance with the Turkish Accounting Standards/Turkish Financial Reporting Standards that were implemented by the Public Oversight Accounting and Auditing Standards Authority (POA) pursuant to Capital Market Board's (CMB) "Communiqué on the Principles of Financial Reporting in Capital Markets", numbered II-14.1. Appendices and comments related to these standards were also considered in preparing financial tables.

CORPORATE GOVERNANCE

BOARD OF DIRECTORS REPORT OF OTOKAR OTOMOTİV VE SAVUNMA SANAYİ A.Ş.
FOR THE PERIOD 01.01.2015-31.12.2015

The financial tables, notes and ratios showing the results of our activities in 2015 are also presented for your information.

The revenues of our company as of end 2015 totalled TL1,433,967,887 while we posted TL370,941,426 in gross sales profit.

Pursuant to CMB regulations and according to the financial statements prepared in accordance with Turkish Financial Reporting Standards, the Company has posted a profit of TL87,840,303 before tax, and a net profit of TL79,506,151 after deducting TL8,334,152 in taxes.

In our Annual General Assembly on March 26, 2015, the upper limit for donations to be made by the Company in 2015 was set at TL3,500,000. In 2015 our Company provided tax-deductible donations and aid amounting to TL1,966,700 to foundations and associations for charitable purposes.

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

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

- our shareholders, shareholders in unlimited taxpayer status and shareholders in limited taxpayer status, who earn profit share through a business unit or a permanent representative in Turkey be paid TL3.00 gross=net cash dividend per one share with the nominal value of TL1.00 at the rate of 300.00%;
- other shareholders be paid TL2.55 net cash dividend per one share with the nominal value of TL1.00 at the rate of 255.00%;
- and that the beginning date of payment of the dividends amounting to TL72,000,000 be Monday, April 4, 2016.

We have submitted an overview of the operations in 2015 and the generated results for your information.

Dear Shareholders,

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

İstanbul, February 26, 2016



Yıldırım Ali KOÇ
Chairman

CORPORATE GOVERNANCE

OTOKAR OTOMOTİV VE SAVUNMA SAN. 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.

In principle, by considering market expectations, our long term company strategy, investment and finance policies, profitability and cash position, a minimum 50% of the distributable profit for the period which is calculated in accordance with Capital Market Legislation 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.

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PROFIT DISTRIBUTION PROPOSAL FOR THE ACCOUNTING PERIOD 01.01.2015 - 31.12.2015

According to our non-consolidated financial statements pertaining to the 01.01.2015-31.12.2015 accounting period, prepared in accordance with Turkish Accounting Standards/Turkish Financial Reporting Standards (TMS/IFRS) pursuant to Capital Market Board's (CMB) "Communiqué on the Principles Financial Reporting in Capital Markets", numbered II-14.1, a "Non-consolidated Net Profit" of TL79,506,151 has been posted. Our profit distribution proposal, taking into account our long-term corporate strategy, the capital requirements of our Company, investments and financing policies, and profitability and cash position, is presented below. In line with the resolution reached at the Annual General Assembly, the dividend payment will start on April 4, 2016.

Otokar Otomotiv ve Savunma Sanayi A.Ş. Profit Distribution Statement 2015 (TL)

1.	Paid-in/Issued Capital		24,000,000
2.	Legal Reserves (based on Legal Records)		46,838,147
Information concerning any privileges provided in the articles of association regarding profit distribution			-
		According to CMB	According to Statutory Records
3.	Profit for the Period	87,840,303	43,128,957
4.	Taxes Payable (-)	8,334,152	4,556,631
5.	Net Profit for the Period (=)	79,506,151	38,572,326
6.	Retained Losses (-)		
7.	Legal Reserves (-)		
8.	NET DISTRIBUTABLE PROFIT FOR THE PERIOD (=)	79,506,151	38,572,326
9.	Donations made during the year (+)	1,966,700	
10.	Donations Included Net Distributable Profit for the Period	81,472,851	
	Primary Dividend to Shareholders		1,200,000
11.	- Cash	40,736,425.50	
	- Bonus Shares		
	- Total		
12.	Dividend Paid to Holders of Preferred Shares		
	Other Dividend Paid		
13.	- to Board Members		
	- to employees		
	- to parties other than stakeholders		
14.	Dividend Paid to Holders of Dividend Right Certificate		
15.	Secondary Dividend to Shareholders	31,263,574.50	33,974,842
16.	Legal Reserves	7,080,000	3,397,484
17.	Statutory Reserves		
18.	Special Reserves		
19.	EXTRAORDINARY RESERVES	426,151	-
20.	Other Funds Proposed to be Distributed		
	- Retained Earnings		36,825,158
21.	Legal Reserves Allocated for Other Sources as Proposed to be Distributed		3,682,516

Dividend Ratio Table

	Group	Total Dividend Distributed (TL)		Total Dividend Distributed/Net Distributable Profit for the Period	Dividend Per Share at Par Value of 1 TL	
		Cash (TL)	Bonus (TL)		Amount (TL)	Ratio (%)
Gross	-	72,000,000	0	91%	3.00000	300.000
	TOTAL	72,000,000	0	91%	3.00000	300.000
Net	-	61,200,000	0	77%	2.55000	255.000
	TOTAL	61,200,000	0	77%	2.55000	255.000

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DECLARATION OF COMPLIANCE WITH THE PRINCIPLES OF CORPORATE GOVERNANCE

SECTION I - DECLARATION OF COMPLIANCE WITH THE PRINCIPLES OF CORPORATE GOVERNANCE

Otokar Otomotiv ve Savunma Sanayi A.Ş. (Company) acts with utmost diligence to comply with the “Capital Markets Board Corporate Governance Principles” issued by the Capital Markets Board (CMB), and carries out its operations in accordance with all applicable laws and regulations, and corporate governance principles. Our company has adopted the equality, transparency, accountability and responsibility principles of corporate governance.

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 92.81 (9.28 over 10) by SAHA Kurumsal Yönetim ve Kredi Derecelendirme Hizmetleri A.Ş., as announced in our material disclosure on March 19, 2015.

Reviewed using CMB’s new methodology based on “Corporate Governance Principles” introduced in January 2014, in accordance with CMB’s (Capital Markets Board) Communiqué on “The Principles Regarding Rating Activity in Capital Markets and Rating Agencies”, and within the frame of BIST’s Corporate Governance Index Ground Rules, the results are provided below under the main headings of Shareholders, Public Disclosure and Transparency, Stakeholders and Board of Directors.

Main Headings	Weight	Rating
Share Holders	%0.25	95,24
Public Disclosure and Transparency	%0.25	92,30
Stakeholders	%0.15	97,13
Board of Directors	%0.35	89,58
Total		92,81

Corporate Governance Rating Report can be found at our corporate website www.otokar.com.

While compliance with the mandatory principles of the Corporate Governance Communiqué numbered II-17.1 applicable in 2015 was fully accomplished, compliance with the non-mandatory principles was achieved to a great extent. 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 a proper fashion, full compliance has not been achieved. 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 our company has been completed. The following sections detail, for each principle, the comprehensive efforts being made in our 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.

Most important activities in the area of Corporate Governance in 2015 focused primarily on compliance with the Capital Markets Law that includes new regulations about CMB’s corporate governance principles and the communiqués issued based on this Law. The Board of Directors and its committees have been formed in accordance with the provisions of the Corporate Governance Communiqué. The committees formed under the board of directors are functioning effectively. The remuneration policy for the board of directors and senior management was established and announced at the General Assembly. The information that must accompany the disclosure

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document to be submitted to the General Assembly includes such standard documents as those indicating preferred shares, voting rights and organizational changes, as well as the CVs of Board of Directors membership nominees, the remuneration policy for Board Members and other information that is required to be disclosed, all of which were provided to our investors three weeks prior to the General Assembly. In addition, the Company's website and annual report were reviewed and revisions required to comply with the principles were made.

We will continue our endeavours to ensure full compliance with the Principles in light of the developments in legislation and general practice.

The Corporate Governance Principles below among the non-mandatory principles have not been fully complied with for reasons explained. The fact that these principles are not complied with does not constitute a conflict of interest that the Company has been subjected to.

- 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., a target rate and timeframe for female members on the board of directors has not yet been determined, and the issue is currently being reviewed.
- Regarding principle 4.4.7., members of the board of directors, due to their significant contributions to the Board of Directors with their professional experience in the industry, have not been limited in terms of conducting external duties.
- 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 4.6.5., remunerations provided to the Board of Directors and the senior management with administrative duties are included in the notes to our financial statements and disclosed to the public at the Ordinary General Assembly.

SECTION II – SHAREHOLDERS

2.1 Shareholder Relations Unit

At Otokar Otomotiv ve Savunma Sanayi A.Ş., the Investor Relations Department is responsible for conducting relations with the shareholders following the cooperation between related units. The department is responsible for providing information to the shareholders and prospective investors, while not disclosing any confidential information or trade secrets, and without causing any inequality of information while ensuring a two-way dialog between the Company's management and the shareholders.

Its main activities include:

- Promoting the Company to individual and institutional investors in Turkey and abroad, providing information to potential investors and shareholders, and meeting the information needs of analysts and specialists working in these institutions,
- Answering questions and meeting the needs of the shareholders,
- Informing shareholders and potential investors of macro and micro developments through investor meetings,
- Providing the most accurate, swiftest and complete information by regularly updating the website, annual report, investor presentations, investor bulletins and such means of communication,

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- Carrying out all kinds of public disclosure activities as required by the regulations, such as financial reporting and disclosing of special situations to the public, and also other functions related to public disclosure within the scope of the Company's disclosure policy,
- Ensuring that the Annual General Assembly is held in accordance with applicable regulations, articles of association, and other internal regulations,
- Recording voting results and informing shareholders of the reports which contain voting results through the minutes of the Annual General Assembly,
- Preparing documents which may be used by shareholders, and publishing such documentation on the Company's website three weeks prior to the Annual General Assembly,
- Ensuring that dividends are paid to the shareholders,
- Providing a two-way flow of information by playing the role of an interlocutor between shareholders and the Company's senior management,
- Monitoring any amendments to the legislation and laws, and ensuring that they are implemented by the Company.

Investor Relations Department has held 120 one-to-one meetings, 40 of which were abroad, and 81 teleconferences with analysts from stockbrokerage companies, and local and foreign investors in 2015. The department has attended 4 investors' conferences, 2 of which were abroad, and organized roadshows to 6 countries. They have also participated in two Power Lunches and met with total 25 investors. Furthermore, 1 plant visit for individual investors, and 4 visits for corporate investors and analysts have been organized during the year.

Investor Relations Department has prepared a report on their activities in 2015, and presented it to the Corporate Governance Committee and the Board of Directors.

To carry out the duties set forth in article 11 of CMB's Corporate Governance Communiqué numbered II-17, Assistant General Manager for Financial Affairs Hüseyin Odabaş has been appointed as department head, with Financial Affairs Manager İrfan Özcan, Finance Manager Doğan Seçkinler and Corporate Governance Specialist Hatice Gülşah Mutlu as officers, and Hüseyin Odabaş has been appointed as a member of the Corporate Governance Committee in the Board Meeting on June 27, 2014. Finance Manager Doğan Seçkinler and Corporate Governance Specialist Hatice Gülşah Mutlu both hold Capital Market Activities Advanced Level Licenses and Corporate Governance Rating Specialist Licenses.

Contact information for the Investor Relations Department are provided below:

Hüseyin Odabaş (Assistant General Manager - Finance)

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email: hodabas@otokar.com.tr

İrfan Özcan (Financial Affairs Manager)

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email: iozcan@otokar.com.tr

Doğan Seçkinler (Finance Manager)

Phone: +90 0264 229 22 44

email: dseckinler@otokar.com.tr

Hatice Gülşah Mutlu (Corporate Governance Specialist)

Phone: +90 264 229 22 44

email: gmutlu@otokar.com.tr

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2.2 Exercise of Shareholders' Rights to be informed

The Company does not carry out any discrimination among shareholders in terms of accessing and inspecting information; and all information, excluding trade secrets, is shared by the shareholders. The Investor Relations Unit replies to all questions, while not disclosing confidential information and trade secrets, by phone or in writing, after consulting with the most informed persons in the Company about the matter. As stated in section 3.1 of this report, all kinds of information and explanations, which might affect shareholder rights, are available on the Company's website.

The appointment of a Special Auditor has not as yet been stipulated as an individual right in the Articles of Association; however, pursuant to Article 438 of the Turkish Commercial Code, each shareholder may demand in the Annual General Assembly that certain events be clarified by conducting a special audit, even if it is not on the agenda, whenever it is required to exercise shareholder rights and if the right to be informed and inspect has been exercised previously. No such demand has been received from the shareholders so far. Additionally, the Company's activities are periodically audited by an Independent Auditor and Internal Audit Unit in the Koç Holding Audit Group Unit.

The Company attaches importance to compliance with legislation in satisfying investors' demands. There were no complaints or administrative or legal pursuance on exercising shareholders' rights last year. In this period, no applications or questions were submitted to the unit on this subject.

2.3 General Assembly Meetings

In 2015, one Ordinary General Assembly was held on March 26, 2015 with 51% attendance at Divan Istanbul Hotel, Asker Ocağı Cad. No:1 Elmadağ, Şişli – Istanbul. The General Assembly Meeting, aiming to encourage wider participation by the shareholders, was held at a location where the shareholders are numerically in majority, in a manner not to allow any inequalities among the shareholders and to ensure attendance with minimum costs.

The Annual General Assembly was organized in a manner which enables broad participation and allows shareholders to be well informed within the scope of the principles set out in the procedure of Koç Group Companies' Annual General Assemblies, which was prepared by taking the Turkish Commercial Code, the Capital Markets Legislation and Principles of Corporate Governance into account. Electronic participation was also provided as well as physical participation. Moreover, the opportunity to participate in the Annual General Assembly was provided to representatives of written and visual media, officers of several intermediaries and individuals wishing to participate as observers.

The Board of Directors issues invitations to the Annual General Assembly in accordance with the provisions of the Turkish Commercial Code, the Capital Market Law and the Company's Articles of Association. Once the Board of Directors reaches the decision to convene the Annual General Assembly, the public is informed through the necessary announcements via the Public Disclosure Platform (KAP), the MKK's e-management and its e-company portal, the Electronic General Assembly System (EGKS) and the Company's corporate website.

Additionally, the location and the agenda of the Annual General Assembly, any draft amendments to the Articles of Association, and the proxy form are published in Turkey's Trade Registry Gazette at least 21 days prior to the Annual General Assembly. It includes information on where the financial statements for the respective period as audited by the independent auditor are available for inspection.

The Company announces any required documents related to the agenda items prior to the Annual General Assembly to the public, and abides by legal processes and legislation in all announcements. Within the scope of the Annual General Assembly Agenda, the Annual Report, Financial Statements, Corporate Governance Compliance Report, Dividend Distribution Proposal, Independent Auditor's Report, and the new and old versions of the amended Articles

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of Association are made available for the inspection of shareholders at the Company's Headquarters and on the website, three weeks prior to the Annual General Assembly. In addition, a detailed explanation is included in the information document about each and every agenda item. Investors are also provided with further information regarding the Annual General Assembly, as set out by the Principles.

Shareholders are informed of the voting procedure to be applied at the Annual General Assembly through the Company's website and announcements in newspapers. In Annual General Assemblies, votes on the agenda items are taken by show of hands, and an open voting method is used.

For shareholders who will be represented by proxy at the Annual General Assembly, the required schedule for procedures as well as a sample proxy form is made available on the Company's website and through announcements in newspapers.

Asking questions and expressing their opinions on the issues at the Annual General Assemblies held under the supervision of representative of the Ministry of Customs and Trade, are the most natural of shareholders rights. Accordingly, the Chairing Board ensures, in accordance with the procedures, that the Company's shareholders exercise their right to ask questions, to table suggestions regarding agenda items, and to discuss their suggestions in the Annual General Assembly.

The shareholders have not proposed any addendum to the agenda. All the questions directed by the shareholders to the General Assembly were answered by the Chairman of the Board of Directors and Senior Management of the Company. There were no questions left unanswered.

All minutes of Annual General Assemblies and attendance lists for past years may be obtained from the company's Head Office and the Minutes of Annual General Assemblies held in the past 5 years are also available on our corporate website. Additionally, the minutes are made available at the Company's Head Office, whenever demanded by shareholders.

In the Annual General Assembly held in 2015, shareholders were informed of the donations and aid made in 2014 on a separate agenda item. The limit for donations in 2015 was set at TL 3,500,000 for 2015. The company does not yet have a policy in place for donations and aids. However, maximum annual donation amount allowed is determined by the shareholders at the General Assembly in accordance with CMB regulations.

2.4 Voting Rights and Minority Rights

There are no privileges regarding the exercise of voting rights set out in the Company's Articles of Association. Voting rights are exercised at the Annual General Assembly in accordance with the regulations concerning the representation and the voting method. The Company abides by the CMB's regulations on voting by proxy. The opportunity for equal, easy and proper voting is provided to all shareholders.

There are no provisions in our Articles of Association regarding the representation of minority shareholders in the management or cumulative voting process.

2.5 Dividend Rights

Our Company distributes profit in accordance with the provisions of the Turkish Commercial Code, the Capital Markets Law, the Tax Law, and other applicable legislation as well as the relevant articles of our Company's Articles of Association.

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In determining profit distribution, the Company takes into account the long-term strategies of the group, the capital requirements of our Company, subsidiaries and affiliates, investments and financing policies, profitability and our cash position.

In principle, by taking the net profit for the period as stated in the financial statements, which are published in accordance with Capital Market Legislation and subjected to independent audit, a minimum of 50% of the “distributable profit for the period”, which is calculated in accordance with the Capital Market Legislation and other applicable laws and regulations, is distributed either in the form of cash or as bonus shares.

Profit distribution is envisioned to be carried out within one month, at most, following the General Assembly while the date for profit distribution is also set at the General Assembly. If authorized, the General Assembly or the Board of Directors may decide to distribute profit in installments in accordance with Capital Market Regulations.

According to the Company’s Articles of Association, the Board of Directors may distribute profit advances as long as it is authorized by the General Assembly and complies with Capital Market Regulations. The authority granted to the Board of Directors by the General Assembly to distribute profit advances is limited with the year the authority is granted.

Profit distribution is carried out in accordance with the relevant article of our Company’s Articles of Association.

Our Company’s dividend distributions in recent years are as follows:

Years	Capital (TL)	% of Dividend by Issued Capital	Amount of Distributed Dividend (TL)
From 2010 Profit	24,000,000	%62.50	15,000,000
From 2011 Profit	24,000,000	%200.00	48,000,000
From 2012 Profit	24,000,000	%266.67	64,000,000
From 2013 Profit	24,000,000	%416.67	100,000,000
From 2014 Profit	24,000,000	%333.33	80,000,000

2.6 Transfer of Shares

Our Company’s Articles of Association do not include any provisions or practices that restrict the transfer of shares.

Only the records in the share ledger, which are maintained by the Central Registry Agency, are taken into consideration. Individuals whose accounts are found in the share ledger are accepted as holders of the dividend right on the share or as a shareholder.

Capital Market Board’s regulations are applied for the transfer of registered shares that are listed in the stock market.

SECTION III – PUBLIC DISCLOSURE AND TRANSPARENCY

3.1 The Company’s Corporate Website and its Content

The Company’s website address is www.otokar.com where current and past information can be accessed. The website includes comprehensive information about the Company, both in Turkish and English. The website is updated as developments occur, and features an “Investor Relations” section which contains subjects related to Corporate Governance Principles. The Investor Relations section contains content belonging to the last 5 years. The principles regarding the management of our website are set out in our Information Policy. The website is written in the Company’s letterhead.

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3.2 Annual Report

The annual report is prepared under the supervision of the Board of Directors, and covers all information as required by the Principles of Corporate Governance. The annual report is prepared in detail in order to provide complete and accurate information to the public about the Company's activities.

SECTION IV – STAKEHOLDERS

4.1 Informing Stakeholders

If and when necessary, the Company's stakeholders are either invited to meetings on matters concerning them or informed by means of telecommunication devices. Public announcements are published through the media, and employees are informed at various events organized by the Company.

The Company aims to inform not only its shareholders but all stakeholders by allowing their attendance at Annual General Assemblies as well as through information on our website, annual reports, press releases, and all other practices carried out within the scope of the Company's disclosure policy. Important announcements, changes in management and press releases are issues in our intranet on which our employees have access in the Company.

Moreover, the Corporate Communication Unit publishes a magazine titled "Otokar Hattı" which is followed by the Company's employees, dealers and customers. The E-bulletin named "Otokar'da Bu Ay" is published within the company, which aims to share all the important news concerning Otokar with the Company's employees. Relations with dealers are maintained at the highest level through meetings and visits with general or regional dealers.

Stakeholders may access the Audit Committee through the contact information provided on the Company's website and/or intranet, concerning any practices which violate the law, or are ethically inappropriate.

Even though the Company currently does not have a written compensation policy for employees, the compensation rights allowed by relevant legislation are provided for the employees.

4.2 Participation of Stakeholders in the Management

Stakeholders may participate in the management's improvement efforts, actively express their opinions and impart comments in accordance with the procedures implemented within the organization. Such practices include the EFQM model, self-assessment meetings which are attended by all white- and blue- collar employees, and open-door meetings, all of which are developed on the basis of a total quality philosophy and which aim to increase productivity. The Company also organizes regular meetings where employees, suppliers and customers can express what they require from the Company. In addition, a number of training programs and various surveys, such as the "working life evaluation questionnaire", are carried out within the scope of the Company's HR policies.

From dealer network meetings to factory visits of shareholders, the Company strives to reach out to stakeholders and thus have a greater impact on society. Additionally, the Company implements a system through which customer demands received by the sales and the dealer network can be tracked, hence enabling necessary measures to be taken and feedback to be provided.

4.3 Human Resources Policy

Within the scope of the Company's human resources policy, all the systems and processes recruitment are set out in written form.

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At Human Resources, our goal is to ensure continuous improvement and motivation of our workforce, and to maintain their loyalty to the Otokar Family.

Within the scope of this policy, the vision and mission statements of Otokar Human Resources have been defined and published on Otokar's corporate website.

Policies and other topics such as recruitment policies, career planning, improvement and training policies for employees have been defined accordingly, and are dealt with under Personnel Regulations. The recruitment policy is based on "the right person for the right job" philosophy, and aims to acquire qualified workforce that is in alignment with company objectives, as well as creative and open to innovations. Otokar looks only for the criterion of matching the job description in all its recruitments, and ensures equal opportunity without discrimination.

While various committees have been established to carry out relations with employees, one Human Resources Representative from each division has been selected. The Company acts in harmony with the Koç Group's Human Resources policies, and the rights and working conditions of both white- and blue-collar employees are secured so as to ensure no employee is subjected to any discrimination or ill treatment. No complaints were received in this regard during the period.

Employees' job descriptions are defined and shared with the employees. Practices related to performance reviews and rewards are carried out through the electronic platform Koç@insan. This platform is open to all employees, and serves to inform employees of the Company's goals as well as measure their performance in realizing these goals. Realizations are shared with the employees through feedback meetings.

The employees can view the realization of goals on the system, and the overall performance of the employee is also assessed and communicated verbally during the yearend performance feedback meetings with the employee's supervisor. These face-to-face meetings between the employee and their supervisor help to clarify the employee's training and development needs. The ensuing development planning process is also carried out on the Koç@insan electronic platform.

All of our Human Resources activities are designed according to the principle of developing the human resource and maintaining their loyalty to the company, while aiming to ensure that Otokar continues to grow by updating itself and protecting its competitive advantage.

4.4 Ethical Rules and Social Responsibility

Otokar acts appropriately in all of its domestic and international activities and relations with business partners, the wider society, its customers, suppliers, shareholders and employees, and strives to expand such behavior not only in its sector but also to a larger platform. The Company announces how it plans to achieve this purpose on its website, under the section Otokar's Ethics.

Within the scope of its corporate social responsibility efforts, Otokar carries out activities both in the region where its factory is located while also targeting the general public, in order to contribute to and create value for the society. Detailed information concerning these efforts are included in the Annual Report. The Company did not receive any negative notices during the period on account of damage caused to the environment. There Company keeps records of its activities, principally consisting of environmental impact reports.

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SECTION V - BOARD OF DIRECTORS

5.1 The Structure and Formation of the Board of Directors

The following table provides an overview of the current non-executive Board Members except our General Manager Ahmet Serdar Görgüç as defined in the CMB Corporate Governance Principles.

Members of the Board of Directors have been elected at the General Assembly on March 26, 2015 to serve until the General Assembly to review the 2015 activities.

Name Surname	Title	Position Regarding Independence	Assignments in BoD and Committees	Duties Outside Company
Yıldırım Ali Koç	Chairman	Non-Executive Member		Koç Holding A.Ş. Vice Chairman of the Board of Directors
Halil İbrahim Ünver	Vice Chairman	Non-Executive Member		Ünver Holding A.Ş. Chairman of the Board of Directors
Osman Turgay Durak	Member	Non-Executive Member		
Levent Çakıroğlu	Member	Non-Executive Member	Member of the Corporate Governance Committee	Koç Holding A.Ş. Management - CEO
Kudret Önen	Member	Non-Executive Member	Member of the Risk Management Committee	Koç Holding A.Ş. Management
Ahmet Serdar Görgüç	Member General Manager	Non-Executive Member		Otokar Otomotiv ve Sav. San. A.Ş. Management
İsmet Böcügöz	Member	Independent Member	Chairman of the Audit Committee, Chairman of the Corporate Governance Committee	
Abdulkadir Öncül	Member	Independent Member	Chairman of the Risk Management Committee, Member of the Audit Committee	
Ahmet Nezih Olcay	Member	Independent Member		

The detailed CVs of the Members of the Board of Directors are included in the annual report.

The duties of the Chairman of the Board and the General Manager are performed by separate persons. While Board Members are encouraged to spare the required time to fulfil their obligations to the company, 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 specific knowledge, no such restrictions have been deemed necessary. The CVs of each Board Member and their other duties outside the company are shared with the shareholders prior to the Annual General Assembly.

The duties of the Nomination Committee and the Compensation Committee in the Company are carried out by the Corporate Governance Committee.

A total of three nominees for independent members were submitted to the Corporate Governance Committee in 2015. Declarations to become a nominee and the CV's of these individuals shall be evaluated in the meetings of the Corporate Governance Committee and the Board of Directors meetings on February 27, 2015. All of these individuals are determined as nominees to be independent members. All independent board members submitted their declarations of independence to the Corporate Governance Committee. During the 2015 activity period, there were no situations, which contravened their independence.

We believe that achieving diversity in the Board of Directors in terms of knowledge, experience and perspectives will provide positive contribution to the Company's activities and enhance the effective functioning of the Board of Directors. Our assessment efforts to determine a target rate for membership of women in the Board of Directors as a means of having diverse views represented in the Board continue.

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5.2 Operating Principles of the Board of Directors

Issues or agendas requiring the resolution of the Board of Directors are arranged and prepared periodically or whenever the need arises. Therefore, the number of Board meetings may vary according to such needs. The Board of Directors drew up 19 resolutions in 2015. Minimum two of the independent members have been made sure to attend the meetings. The Board convenes for meetings whenever the operations of the Company so require. Although there is no dedicated secretariat established to facilitate communication, the Finance Department prepares the meeting agenda, records the resolutions, and monitors the outcome of resolutions.

Should any issues which require the Board's resolution as dictated by the Company's Articles of Association arise, the senior management of the Company notifies the Board Members of the situation, and the meeting agenda is set accordingly. Otherwise, a meeting agenda may also be drawn up when a Board Member notifies the upper management of a specific matter which requires the Board's resolution.

Issues which need to be discussed by the Board of Directors are gathered and compiled by the Finance Department and the meeting agenda is drawn up accordingly.

The Finance Director of Otokar A.Ş. is in charge of establishing the agenda of the Board meetings, preparing the Board's resolutions, and informing and communicating with the Board members.

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 our 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 parties' transactions, Board of Directors also assesses potential risks for misconduct and diligently addresses the transactions of related parties.

5.3 The Number, Structure and the Independence of the Committees formed by the Board of Directors

In our Company, the Board of Directors forms several committees in order to effectively fulfil its duties and responsibilities, and these committees carry out their activities in accordance with specified procedures. Our 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. 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 more than one committee facilitate communication and increase the 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 posted on the corporate website.

CORPORATE GOVERNANCE

DECLARATION OF COMPLIANCE WITH THE PRINCIPLES OF CORPORATE GOVERNANCE

Audit Committee

The Audit Committee, which was established in accordance with the decision of the Board of Directors on April 29, 2003 fulfils the duties set out in the Capital Market Legislation.

During the Board of Directors Meeting dated April 1, 2015, it was resolved that the Audit Committee would be composed of 2 independent members, with İsmet Böcügöz appointed as the head, and Abdulkadir Öncül appointed as member of the committee.

In 2015, 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 during the year.

Corporate Governance Committee

The Corporate Governance Committee was established following the Board of Directors resolution dated May 25, 2012 to monitor the Company's compliance with the Corporate Governance Principles, to evaluate corporate governance practices and the Corporate Governance Compliance Report, and to oversee the work of the investor relations department. The Committee examines the reasons for cases of no implementation of some of the principles, and makes recommendations to the Board of Directors for the improvement of practices. The Committee's operating principles have been announced on the corporate website. In their meeting on April 1, 2015 the Board of Directors resolved that the Corporate Governance Committee be composed of three members and that İsmet Böcügöz, who is an independent member, be appointed as the head, 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.

Risk Management Committee

In our Company's Board of Directors Meeting dated July 11, 2012, it was resolved 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 tackle these risks in order to ensure compliance with article 378 of Law 6102 of the Turkish Commercial Code, which entered force in July 2012. During the Board of Directors Meeting dated April 1, 2015, it was decided that the committee would be composed of two members, with Abdulkadir Öncül, who is an independent member, and Kudret Önen to be appointed as the head and as a member of the committee, respectively. The committee convenes at least six times a year.

5.4 Risk Management and the Internal Control Mechanism

A risk management and internal control mechanism was established to deal with the Company's financial and administrative activities. The Financial Affairs and Internal Audit Departments are in charge of ensuring that it operates effectively and in accordance with capital markets legislation and regulations.

Our Company's financial statements are examined by the Audit Committee, which is formed by the Board.

The Company is audited, in a process, which includes financial control and risk analyses, by the Audit Group Presidency, which operates under the Board of Directors of Koç Holding A.Ş., one of the Company's major shareholders.

The main risks which our Company is exposed to come under four main headings - financial risks, strategic risks, operational risks and legal risks. The Risk Management Committee and Board of Directors are periodically informed of these risks. Detailed information concerning risk management is included in the related part of activity report.

CORPORATE GOVERNANCE

DECLARATION OF COMPLIANCE WITH THE PRINCIPLES OF CORPORATE GOVERNANCE

5.5 The Company's Strategic Goals

Otokar preserves the local and national identity characteristics in its products by developing its own technology and aims to ensure the continuous satisfaction of its customers, employees, and shareholders by embracing a philosophy of total excellence.

The Board of Directors of the Company manages and represents the Company through its strategic decisions, taking into consideration particularly long-term interests in light of keeping the Company's risk-growth-profits balance at the most appropriate level through a rational and cautious risk management approach.

The Board of Directors determines the Company's strategic goals, identifies the human and financial resources needed to achieve them, and oversees the performance of management.

Strategic Goals

- To grow by achieving higher return on shareholders' equity and increasing stock value,
- To focus on the manufacture of breakthrough products, which have international competitive power,
- To invest in technology in order to become the leader or the second player in the industries we operate in,
- To boost the brand's strength by commanding technology in the industries we operate in,
- To increase the share of international sales in total revenue by increasing our exports and international operations.

The strategic goals determined in line with the Company's vision and mission are evaluated by the Board of Directors.

The values set out in the Company's mission and vision, which have been established by the Senior Management and approved by the Board of Directors, are included in the Annual Report. The efforts of the related departments in establishing and reaching strategic goals are monitored and presented to the Board of Directors by the Company's senior management. By evaluating the performance recorded in previous years, the Board of Directors reviews the Company's activities during the year and the strategic goals set by the Senior Management and reaches decisions accordingly. Financial performance is followed alongside the budget, and developments in strategic matters are also followed and recommendations are provided.

5.6 Remuneration of the Board of Directors

Payments and benefits offered to the Board of Directors and senior executives, as well as the criteria for determining such remuneration, are detailed in our Company's "Remuneration Policy regarding Board Members and Senior Managers", which was presented to the shareholders on the Company's website as part of the "Information Document", three weeks prior to our Annual General Assembly held on March 26, 2015. This was then approved at the Annual General Assembly and entered effect. This policy disclosed to the public on the corporate website and with the annual report will be included in the agenda of the General Assembly Meeting on March 28, 2016, presented to the shareholders for discussion. Total remuneration paid to the Board Members and Senior Managers is evaluated annually by the Corporate Governance Committee and the Board of Directors.

Remunerations provided to the board of directors and the senior management as stated in the notes to our financial statements are not disclosed on the basis of the persons but as the total of remunerations provided to board members and senior management consisting of the general manager and assistant general managers. The Company does not get involved in transactions that might lead to conflicts of interest such as extending loans to members of the Board of Directors or executives, or providing collateral on their behalf.

CORPORATE GOVERNANCE

RISK MANAGEMENT AND RISK MANAGEMENT COMMITTEE ACTIVITIES

a. Risk Management

The risk management policy at Otokar is led by the General Manager under the supervision of the Board of Directors. Risk management is carried out in coordination with all executives, spread 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 of drawing up action plans to address such risks.

The Risk Management Committee has been established to determine and assess any strategic, operational, financial, legal and other risks which may undermine the Company's presence, growth and continuity; to calculate the impact and probability of such risks, to report and manage these risks according to the Company's risk profile; and also to 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, productivity, revenue generating capabilities, profitability, debt/equity ratio and similar topics are also assessed and managed as part of our risk policy.

Otokar tracks 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 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 follow-up. As part of the Company's policy, no mortgage, pledge or such additional collateral is provided in credit usage.

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

Receivables Risk: Receivables are followed based on the limits of collaterals. The coherence of debt-receivable days to expected days in budget is followed 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 any changes in management.

Potential risks and opportunities are followed in strategic risk management, in view of budget and strategic plans that serve as indicators of future plans, macroeconomic developments, the market and sector dynamics.

Operational Risks

Operational risks are composed of losses such as those from business processes that may impact basic activities, personnel and systems, which are affected by internal systems and processes, and external factors. Risk areas such as

CORPORATE GOVERNANCE

RISK MANAGEMENT AND RISK MANAGEMENT COMMITTEE ACTIVITIES

sales, product development, capacity, information management, technology, brand management, earthquake and fire are risks that are included in this category.

Insurance to manage operational risks is purchased through a central procurement system.

Legal Risks

Legal risks and opportunities are followed by the management and legal advisors in terms of compliance with applicable laws, regulations and standards. The legal conformity (HUY) test and contract supervision system (LERIMAN) are applied in line with the Group's practices.

b. Activities of the Risk Management Committee

In the Board of Directors Meeting of Otokar Otomotiv ve Savunma Sanayi A.Ş. on July 11, 2012, it was resolved 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 tackle 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 committee is chaired by independent Board member, Mr. Abdulkadir Öncül, while the other member of the committee is Board member Mr. Kudret Önen.

The operating principles of the committee are announced on our Company's website. The committee holds at least 6 meetings each year.

The committee has met 7 times in 2015. The committee evaluates the Company's principles for the Risk Management System and Risk Reporting, examines Risk Reports prepared periodically and expresses its 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.

c. Internal Control System and Internal Audits

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

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

The Internal Control System is periodically reviewed by the Internal Audit Group for effectiveness. Within the organizational structure, the Internal Audit Group is directly reporting to the General Manager to ensure independency.

Financial tables and statements are inspected by the Audit Committee, and the Internal Audit Group; and audited by the independent audit company Başaran Nas Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş. (A Member of PricewaterhouseCoopers).

Otokar Otomotiv ve Savunma Sanayi A.Ş. has not been subjected to any Private or Public Inspection in 2015.

CORPORATE GOVERNANCE

2015 REPORT ON AFFILIATED COMPANIES

The report, which explains our relations with major shareholders within the scope of Turkish Commercial Code (TTK) article 199 was approved in Board of Directors meeting, held on February 23, 2016. The result of the report is below:

"Pursuant to Article 199 of the Turkish Commercial Code No. 6102, which entered effect on July 1, 2012, the Board of Directors of Otokar Otomotiv ve Savunma Sanayi A.Ş. is required to prepare a report on the Company's transactions of the previous year with its majority shareholder and its subsidiaries, within the first three months of the calendar 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 February 24, 2016: "The Board of Directors of Otokar Otomotiv ve Savunma Sanayi A.Ş. reached the conclusion that, in all transactions conducted in 2015 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

REVIEW OF THE BOARD COMMITTEES' ACTIVITIES AND THEIR EFFECTIVENESS

All of the Board Committees have fulfilled the duties and obligations they are responsible for in accordance with Corporate Governance Principles and their own regulations; and have convened according to the annual meeting schedules. Information of 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 of the Board Committees and their operating principles are available on the corporate website.
<http://www.otokar.com/en-us/investorrelations/corporategovernance/Pages/committees.aspx>

Detailed information on the structure and activities of the Committees has been included in the "Corporate Governance Principles Compliance Report" section of this Report (See p. 62).

CORPORATE GOVERNANCE

LEGAL DISCLOSURES

Report Period:

01.01.2015-31.12.2015

Company Title:

Otokar Otomotiv ve Savunma Sanayi. A.Ş.

Trade Registry / Number:

İstanbul / 83467

Ownership Structure and Capital Distribution:

Registered Capital Ceiling : TL 100,000,000

Paid-in Capital : TL 24,000,000

Shareholders	Share amount (TL)	Percentage %
Koç Holding A.Ş.	10.722.750	44,68
Ünver Holding A.Ş.	5.954.944	24,81
Other	7.322.306	30,51
Total	24.000.000	100,00

The 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.

Stock Information:

BIST Ticker Symbol : OTKAR

Reuters Ticker Symbol : OTKAR.IS

Bloomberg Ticker Symbol : OTKAR.TI

IPO Date : 24.04.1995

Headquarters Address:

Aydınevler Mah. Dumlupınar Cad.

No: 58 A Blok 34854 Küçükyalı İstanbul / Turkey

Factory Address:

Atatürk Cad. No: 6

54580 Arifiye Sakarya / Turkey

Phone:

+90 216 489 29 50

Website

www.otokar.com

CORPORATE GOVERNANCE

LEGAL DISCLOSURES

Preferential Shares and Voting Rights of Shares

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

Organizational Changes within the Year

There were no significant organizational changes within the year.

Legal Action Taken Against the Company

There was no important legal action taken against the company.

Legislative Changes that Could Affect the Company's Activities Significantly

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

Conflict of Interests with Corporations which the Company Obtains Services from in Investment Consultancy, Rating and such Subjects, and the Measures Taken to Prevent such Conflicts of Interest

The Company does not obtain any investment consultancy services. A Corporate Governance Rating service was received, but there was no conflict of interest with the company providing this service.

Private and Public Audits in 2015

None.

Administrative and Legal Sanctions Applied against the Company or its Board Members due to Non-compliance with Regulations

None.

Implementations of Resolutions of the Ordinary General Assembly

The resolutions reached at the Ordinary General Assembly, dated 26th March, 2015, 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, in-laws and blood relatives up to second kin, to conduct transactions or compete with the Company and its affiliates which could lead to conflicts of interest

None.

REPORTS AND FINANCIAL STATEMENTS

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Otokar Otomotiv ve Savunma Sanayi Anonim Şirketi Report by the Committee Responsible from Audit

To the Board of Directors of Otokar Otomotiv ve Savunma Sanayi Anonim Şirketi

We have convened to examine and provide opinions concerning the nonconsolidated financial tables pertaining to the period between 1 January - 31 December, 2015, which was prepared by Otokar Otomotiv ve Savunma Sanayi A.Ş. management and which comply with the Turkish Accounting Standards/Turkish Financial Reporting Standards ("TMS/ TFRS) and formats determined by the CMB in accordance with the Capital Market Board's "Financial Reporting in Capital Market Communiqué" (Communiqué) numbered II.14.1, and the independent auditor's report, which was prepared by Güney Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik Anonim Şirketi (A member firm of Ernst & Young Global Limited).


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

Within the scope of information submitted to us and as a result of our evaluations, we have reached the view that the nonconsolidated financial statements pertaining to the 1 January - 31 December, 2015 period comply with the accounting principles that the company follows, and are accurate and true. We submit these financial statements for the approval of the Board of Directors.

Sincerely,

Istanbul, February 5, 2016

THE COMMITTEE RESPONSIBLE FOR THE AUDIT



İsmet BÖCÜGÖZ
Board Member



Abdulkadir ÖNCÜL
Board Member



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

Report on the Financial Statements

1. We have audited the accompanying financial statements of Otokar Otomotiv ve Savunma Sanayi A.Ş. (the "Company"), which comprise the statement of balance sheet as at 31 December 2015 and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the period then ended and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

2. The Company's management is responsible for the preparation and fair presentation of these financial statements in accordance with Turkish Accounting Standards and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Independent Auditor's Responsibility

3. Our responsibility is to express an opinion on these financial statements based on our audit. Our audit was conducted in accordance with standards on auditing issued by the Capital Markets Board of Turkey and Independent Auditing Standards that part of Turkish Standards on Auditing issued by the Public Oversight Accounting and Auditing Standards Authority. Those standards require that ethical requirements are complied with and that the audit is planned and performed to obtain reasonable assurance whether the financial statements are free from material misstatement.

An independent audit involves performing procedures to obtain evidence about the amounts and disclosures in the financial statements. The procedures selected depend on independent auditor's professional judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to error or fraud. In making those risk assessments, the independent auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An independent audit includes also evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the independent audit evidence we have obtained during our audit is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

4. In our opinion, the financial statements present fairly, in all material respects, the financial position of Otokar Otomotiv ve Savunma Sanayi A.Ş. as at 31 December 2015 and their financial performance and cash flows for the period then ended in accordance with Turkish Accounting Standards.

Other Responsibilities Arising From Regulatory Requirements

5. In accordance with subparagraph 4 of Article 398 of the Turkish Commercial Code ("TCC") No: 6102; auditor's report on the early risk identification system and committee has been submitted to the Company's Board of Directors on 5 February 2016.
6. In accordance with subparagraph 4 of Article 402 of the TCC; no significant matter has come to our attention that causes us to believe that the Company's bookkeeping activities for the period 1 January - 31 December 2015 is not in compliance with the code and provisions of the Company's articles of association in relation to financial reporting.
7. In accordance with subparagraph 4 of Article 402 of the TCC; the Board of Directors submitted to us the necessary explanations and provided required documents within the context of audit.

Başaran Nas Bağımsız Denetim ve
Serbest Muhasebeci Mali Müşavirlik A.Ş.
a member of
PricewaterhouseCoopers



Beste Gücümen, SMMM
Partner

Istanbul, 5 February 2016

Otokar Otomotiv ve Savunma Sanayi Anonim Şirketi

Balance Sheet as of 31 December 2015

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

	Notes	(Audited) 31 December 2015	(Audited) 31 December 2014
Assets			
Current assets			
Cash and cash equivalents	4	58.736.065	44.527.697
Trade receivables	8	344.453.922	268.230.380
- Due from related parties	27	106.906.185	50.877.972
- Due from other parties	8	237.547.737	217.352.408
Other receivables	9	2.090	958
Inventories	10	427.975.544	264.162.428
Derivative financial instruments	7	146.636	1.726.888
Prepaid expenses	17	122.691.548	78.996.994
Current income tax assets	25	-	2.106.718
Other current assets	17	65.687.162	12.306.871
Total current assets		1.019.692.967	672.058.934
Non-current assets			
Trade receivables, due from other parties	8	100.295.845	140.255.060
Other receivables, due from other parties	9	65.853	101.585
Due from customers on contract works	11	188.278.141	129.854.389
Financial investments	5	239.280	239.280
Property, plant and equipment	12	103.757.339	112.260.055
Intangibles	13	155.419.078	141.447.509
Deferred tax asset	25	37.313.671	39.335.574
Total non-current assets		585.369.207	563.493.452
Total assets		1.605.062.174	1.235.552.386

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

Otokar Otomotiv ve Savunma Sanayi Anonim Şirketi

Balance Sheet as of 31 December 2015

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

	Notes	(Audited) 31 December 2015	(Audited) 31 December 2014
Liabilities			
Current liabilities			
Short-term financial liabilities	6	375.402	29.751.877
Short-term portion of long term financial liabilities	6	105.607.359	45.915.500
Trade payables	8	165.819.465	81.523.996
<i>Due to related parties</i>	27	27.169.350	10.320.537
<i>Due to others</i>	8	138.650.115	71.203.459
Employee benefit obligations	17	18.137.584	17.106.197
Other payables, third parties	9	36.228.439	16.383.024
Current year income tax liabilities	25	2.093.694	-
Deferred income	17	176.292.725	263.802.421
Government grants	14	2.056.306	2.033.845
Short term provisions	15	276.300.155	181.758.643
<i>Provisions for employee benefits</i>		6.651.542	5.381.838
<i>Other provisions</i>		269.648.613	176.376.805
Other current liabilities	17	1.978.569	2.025.403
Total current liabilities		784.889.698	640.300.906
Non-current liabilities			
Financial liabilities	6	509.295.075	273.846.971
Government grants	14	5.570.470	7.162.947
Long-term provisions		31.755.416	25.403.540
<i>Provision for employee benefits</i>	16	22.321.490	20.969.191
<i>Other provisions</i>	15	9.433.926	4.434.349
Deferred income	17	28.312.416	44.510.646
Total non-current liabilities		574.933.377	350.924.104
Equity			
Paid-in share capital	18	24.000.000	24.000.000
Inflation adjustment on share capital	18	52.743.030	52.743.030
Restricted reserves	18	46.838.147	38.958.147
Accumulated other comprehensive income and expense that will not be classified to statement of profit or loss	18	(3.859.283)	(5.264.855)
Retained earnings	18	46.011.054	61.119.856
Net income for the year	18	79.506.151	72.771.198
Total Equity		245.239.099	244.327.376
Total Liabilities and Equity		1.605.062.174	1.235.552.386

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

Statement of Profit or Loss and Other Comprehensive Income for the Year Ended
1 January - 31 December 2015

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

	Notes	(Audited) 1 January - 31 December 2015	(Audited) 1 January - 31 December 2014
Net Sales	19	1.433.967.887	1.231.633.772
Cost of sales (-)	19	(1.063.026.461)	(919.528.400)
Gross profit		370.941.426	312.105.372
Marketing expenses (-)	20	(179.773.869)	(132.494.804)
General administrative expenses (-)	20	(49.337.559)	(39.819.107)
Research and development expenses (-)	20	(35.321.089)	(28.658.352)
Other operating income	22	101.264.349	87.200.968
Other operating expenses (-)	22	(68.112.790)	(76.415.130)
Operating profit		139.660.468	121.918.947
Income from investing activities		1.479.803	55.898
Operating income before financial expenses		141.140.271	121.974.845
Financial income	23	12.390.802	14.467.603
Financial expense (-)	24	(65.690.770)	(54.658.600)
Income before tax		87.840.303	81.783.848
Tax income/expense from continued operations			
- Current tax expense (-)	25	(6.663.642)	(4.581.854)
- Deferred tax expense (-)	25	(1.670.510)	(4.430.796)
Profit for the period		79.506.151	72.771.198
Remeasurement gains / (losses) on defined benefit plans		1.756.965	(2.141.752)
Deferred tax effect on remeasurement differences		(351.393)	428.350
Other comprehensive income/(expense)		1.405.572	(1.713.402)
Total comprehensive income/(expense)		80.911.723	71.057.796
Earnings per share (Kuruş)	26	0,331	0,303

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

Statement of Changes in Equity for the Year Ended 1 January – 31 December 2015

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

				Accumulated other comprehensive income and expense that will not be reclassified to statement of profit or loss			
	Paid in share capital	Inflation adjustments on share capital	Restricted reserves	Restricted reserves Restricted reserves	Retained earnings	Net income for the period	Total equity
1 January 2014	24.000.000	52.743.030	29.078.147	(3.551.453)	74.438.113	96.561.743	273.269.580
Transfers	-	-	9.880.000	-	86.681.743	(96.561.743)	-
Dividends paid	-	-	-	-	(100.000.000)	-	(100.000.000)
Total comprehensive income	-	-	-	(1.713.402)	-	72.771.198	71.057.796
31 December 2014	24.000.000	52.743.030	38.958.147	(5.264.855)	61.119.856	72.771.198	244.327.376
1 January 2015	24.000.000	52.743.030	38.958.147	(5.264.855)	61.119.856	72.771.198	244.327.376
Transfers	-	-	7.880.000	-	64.891.198	(72.771.198)	-
Dividends paid	-	-	-	-	(80.000.000)	-	(80.000.000)
Total comprehensive income	-	-	-	1.405.572	-	79.506.151	80.911.723
31 December 2015	24.000.000	52.743.030	46.838.147	(3.859.283)	46.011.054	79.506.151	245.239.099

Otokar Otomotiv ve Savunma Sanayi Anonim Şirketi
Statement of Cash Flows for the Year Ended
1 January - 31 December 2015

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

	Notes	(Audited) 1 January - 31 December 2015	(Audited) 1 January - 31 December 2014
Cash flows from operating activities			
Income before taxes		87.840.303	81.783.848
Adjustments to reconcile income before taxes to net cash flow from operating activities:			
Depreciation and amortization	12, 13	48.262.812	46.195.954
Provision for employment termination benefits	16	6.625.936	6.224.424
Provision for impairment on inventories	10, 21	(699.394)	190.285
Warranty provision expenses	15, 21	53.642.174	23.001.911
Gain on sale of property, plant and equipment		(1.479.803)	(55.898)
Interest expense on borrowings	24	40.417.977	42.069.785
Unrealised foreign exchange gains on borrowings		(1.578.100)	(2.073.200)
Interest income on time deposits	23	(768.391)	(1.461.384)
Provision for doubtful receivables	8, 22	2.924.718	565.838
Financial derivative transactions, net		(5.808.620)	(11.467.741)
Cash flows before changes in net working capital		229.379.612	184.973.822
Trade and other receivables		(39.154.445)	183.066.006
Due from customers on contract works		(58.423.752)	(36.257.100)
Inventories		(163.113.722)	33.444.452
Other current assets		(94.968.127)	795.755
Trade payables		84.295.469	(20.910.513)
Other liabilities		1.877.224	39.771.888
Collection on gains on financial derivative contracts		7.388.872	8.508.903
Income taxes paid		(4.569.948)	(13.792.197)
Warranties paid	15	(40.426.284)	(25.642.981)
Employee termination benefits paid	16	(3.516.672)	(3.570.127)
Cash flows from investing activities		(81.231.773)	350.387.908
Investing activities			
Purchase of property, plant and equipment	12	(6.350.032)	(8.773.400)
Purchase of intangible assets	13	(48.956.281)	(44.438.216)
Proceeds from sale of property, plant and equipment		3.054.451	499.356
Net cash used in investing activities		(52.251.862)	(52.712.260)
Financing activities			
Proceeds from bank borrowings		661.248.708	262.582.894
Repayments of bank borrowings		(406.518.354)	(389.251.873)
Interest paid		(27.806.742)	(36.824.530)
Interest received		768.391	1.461.384
Dividends paid		(80.000.000)	(100.000.000)
Net cash (used in) / provided by financing activities		147.692.003	(262.032.125)
Increase in cash and cash equivalents		14.208.368	35.643.523
Cash and cash equivalents at the beginning of the year	4	44.527.697	8.884.174
Cash and cash equivalents at the end of the period	4	58.736.065	44.527.697

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

Otokar Otomotiv ve Savunma Sanayi Anonim Şirketi

Notes to the Year End Financial Statements at 31 December 2015

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

NOTE 1 - COMPANY'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 automotive industry and off road vehicles, armoured vehicles, minibuses, midibuses and buses, trailers, semi-trailers, light truck and cross-country vehicles. The number of the personnel employed by the Company is 2.105 as of 31 December 2015 (31 December 2014: 2.054).

The registered addresses of the Company are as follows:

Headquarters:

Aydınevler Mahallesi, Dumlupınar Cad. No: 58 A Bl.
34854 Küçükyalı Istanbul / Turkey

Factory:

Atatürk Cad. No: 6
54580 Arifiye Sakarya / Turkey

The Company has a subsidiary named "Otokar Europe SAS" with a capital of Euro 100.000, established on 18 August 2011 for the purpose of organizing export activities and increasing export sales. Since the operational magnitude of "Otokar Europe SAS" does not materially affect the financial statements, it has not been included to consolidation and has been presented at historical cost value as financial investments (Note 5).

Financial statements for the year ended 31 December 2015 were authorized for issue and signed by the Board of Directors of the Company on 5 February 2016 with the approval of the Internal Audit Committee. The accompanying financial statements could be amended by the Board of Directors.

The Company is registered to the Capital Market Board ("CMB") and its shares are listed on the Borsa Istanbul ("BIST"), previously name as Istanbul Stock Exchange ("ISE") since 1995. As of 31 December 2015, %27.45 of total shares are listed at BIST.

As of 31 December 2015, 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

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

The Company is controlled by Koç Holding A.Ş.

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

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

NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

2.1 Basis of presentation

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

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

The 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, prorate and useful life depreciation adjustment of fixed assets, accounting of provisions, construction accounting for tank project and discount of receivables and payables.

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

Functional and presentation currency

Functional and presentation currency of the Company is TL.

In accordance with the CMB's resolution dated 17 March 2005 and numbered 11/367, the financial statements were restated in accordance with International Accounting Standards (IAS) 29 (Financial Reporting in Hyperinflationary Economies) for the last time as of 31 December 2014, 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 2015 and 31 December 2014 have been restated by applying the relevant conversion factors through 31 December 2015 and carrying additions after 31 December 2004 at their nominal values.

2.2 Accounting errors and changes in accounting estimates

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

Changes in estimations are applied in the current period if related to one period. They are applied forward, in the period the change occurred and in the future when they are related with the future periods.

Otokar Otomotiv ve Savunma Sanayi Anonim Şirketi

Notes to the Year End Financial Statements at 31 December 2015

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

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

2.3 Changes in accounting policies

The Company 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.

a) Standards, amendments and interpretations applicable as at 31 December 2015

Amendment to IAS 19 regarding defined benefit plans, effective from annual periods beginning on or after 1 July 2014. These narrow scope amendments apply to contributions from employees or third parties to defined benefit plans. The objective of the amendments is to simplify the accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary.

Annual improvements 2012; effective from annual periods beginning on or after 1 July 2014. These amendments include changes from the 2010-12 cycle of the annual improvements project, that affect 7 standards:

- IFRS 2, 'Share-based payment'
- IFRS 3, 'Business Combinations'
- IFRS 8, 'Operating segments'
- IFRS 13, 'Fair value measurement'
- IAS 16, 'Property, plant and equipment' and IAS 38, 'Intangible assets'
- Consequential amendments to IFRS 9, 'Financial instruments', IAS 37, 'Provisions, contingent liabilities and contingent assets', and
- IAS 39, 'Financial instruments – Recognition and measurement'

Annual improvements 2013; effective from annual periods beginning on or after 1 July 2014. These amendments include changes from the 2011-12-13 cycle of the annual improvements project, that affect 4 standards:

- IFRS 1, 'First time adoption'
- IFRS 3, 'Business combinations'
- IFRS 13, 'Fair value measurement' and
- IAS 40, 'Investment property'.

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

b) Standards, amendments and interpretations effective after 1 January 2016:

• **Amendment to IFRS 11, 'Joint arrangements'** on acquisition of an interest in a joint operation, effective from annual periods beginning on or after 1 January 2016. This amendment adds new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business. The amendments specify the appropriate accounting treatment for such acquisitions.

• **Amendments to IAS 16 'Property, plant and equipment', and IAS 41, 'Agriculture'** regarding bearer plants, effective from annual periods beginning on or after 1 January 2016. These amendments change the financial reporting for bearer plants, such as grape vines, rubber trees and oil palms. It has been decided that bearer plants should be accounted for in the same way as property, plant and equipment because their operation is similar to that of manufacturing. Consequently, the amendments include them within the scope of IAS 16, instead of IAS 41. The produce growing on bearer plants will remain within the scope of IAS 41.

• **Amendment to IAS 16, 'Property, plant and equipment' and IAS 38, 'Intangible assets'**, on depreciation and amortisation, effective from annual periods beginning on or after 1 January 2016. In this amendment the it has clarified that the use of revenue based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. It is also clarified that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset.

• **IFRS 14 'Regulatory deferral accounts'**, effective from annual periods beginning on or after 1 January 2016. IFRS 14, 'Regulatory deferral accounts' permits first-time adopters to continue to recognise amounts related to rate regulation in accordance with their previous GAAP requirements when they adopt IFRS. However, to enhance comparability with entities that already apply IFRS and do not recognise such amounts, the standard requires that the effect of rate regulation must be presented separately from other items.

• **Amendments to IAS 27, 'Separate financial statements'** on the equity method, effective from annual periods beginning on or after 1 January 2016. These amendments allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements.

• **Amendments to IFRS 10, 'Consolidated financial statements' and IAS 28, 'Investments in associates and joint ventures'**, effective from annual periods beginning on or after 1 January 2016. These amendments address an inconsistency between the requirements in IFRS 10 and those in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary.

Otokar Otomotiv ve Savunma Sanayi Anonim Şirketi

Notes to the Year End Financial Statements at 31 December 2015

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

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

Annual improvements 2014, effective from annual periods beginning on or after 1 January 2016. These set of amendments impacts 4 standards:

- IFRS 5, 'Non-current assets held for sale and discontinued operations' regarding methods of disposal.
- IFRS 7, 'Financial instruments: Disclosures', (with consequential amendments to IFRS 1) regarding servicing contracts.
- IAS 19, 'Employee benefits' regarding discount rates.
- IAS 34, 'Interim financial reporting' regarding disclosure of information.

• **Amendment to IAS 1, 'Presentation of financial statements'** on the disclosure initiative, effective from annual periods beginning on or after 1 January 2016, these amendments are as part of the IASB initiative to improve presentation and disclosure in financial reports

• **Amendment to IFRS 10 'Consolidated financial statements' and IAS 28, 'Investments in associates and joint ventures'**, effective from annual periods beginning on or after 1 January 2016. These amendments clarify the application of the consolidation exception for investment entities and their subsidiaries.

• **IFRS 15 'Revenue from contracts with customers'**, effective from annual periods beginning on or after 1 January 2018. IFRS 15, 'Revenue from contracts with customers' is a converged standard from the IASB and FASB on revenue recognition. The standard will improve the financial reporting of revenue and improve comparability of the top line in financial statements globally.

• **IFRS 9 'Financial instruments'**, effective from annual periods beginning on or after 1 January 2018. This standard replaces the guidance in IAS 39. It includes requirements on the classification and measurement of financial assets and liabilities; it also includes an expected credit losses model that replaces the current incurred loss impairment model.

NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)**2.4 Significant accounting judgments and estimates**

The preparation of the financial statements require 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 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 financial statements and the significant judgments with the most significant effect on amounts recognized in the financial statements are as follows:

- a) In the context of IAS 11 "Construction contracts" assumptions are made related to total cost of and profitability of projects.
- b) 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 December 31, 2015, since the Management believed the -indicators demonstrating that the Company will have taxable profits in the foreseeable future- are reliable, deferred tax asset has been recognized.
- c) Provision for employment termination benefits are determined by using actuarial assumptions (discount rates, future salary increases and employee turnover rates).
- d) The Company determines warranty provision by considering the past warranty expenses and remaining warranty period per vehicle.
- e) Provision for doubtful receivables is an estimated amount that management believes to reflect for possible future losses on existing receivables that have collection risk due to current economic conditions. During the impairment test for the receivables, the debtors, other than related parties, are assessed with their prior year performances, their credit risk in the current market, and their individual performances after the balance sheet date up to the issuing date of the financial statements and furthermore, the renegotiation conditions with these debtors are considered.
- f) Inventory price lists after discount is used to calculate impairment for inventories. In such cases that sales price cannot be predicted, inventory aging and physical status are considered together with technical personnel's opinion. If anticipated expected net realizable value is less than the cost, impairment for the difference is provided for.
- g) When allocating provision for legal risks, the probabilities of failure in the cases and the possible liabilities to be arisen in the case of failure are evaluated by the management through being counselled by legal advisors of the Company. The management determines the amount of the provisions based on their best estimates.
- h) The Company has made certain important assumptions based on experiences of technical personnel in determining useful economic lives of property, plant and equipment and intangible assets.

Otokar Otomotiv ve Savunma Sanayi Anonim Şirketi

Notes to the Year End Financial Statements at 31 December 2015

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

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

2.5 Summary of significant accounting policies

Revenue recognition

Accruals basis accounting is applied for the recognition of revenue and expenses. The accrual concept requires that revenue, income and profits should be matched with costs, expenses and losses belonging to the same period.

Revenue includes invoiced or accrued values of sale of goods and rendering services. Revenue from the sale of goods is recognised on an accrual basis over fair value when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on delivery of the goods. Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be measured reliably. Significant risk and rewards related to sales passes to the buyer on delivery of the goods or transfer of ownership to buyer. Net sales are invoiced amounts of delivered goods excluding sales returns.

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.

Construction contract activities

Contract revenue and costs are recognized as revenue and expenses, respectively, when the outcome of a construction contract can be estimated reliably. The projects are "fixed cost" and the project revenues are reflected according to the percentage of completion method. The percentage of completion method is used to recognize revenue on a contract as work progresses by matching contract revenue with contract costs incurred based on the proportion of work completed which is determined by the ratio of actual costs incurred through to the end of each reporting period divided by the total estimated contract costs of the project.

Contract costs include all direct material and labor costs and those indirect costs related to contract performance, such as indirect labor, supplies, tools, repairs and depreciation costs. Selling, general and administrative expenses are charged to the income statement as incurred. Provisions for estimated losses on uncompleted contracts are made in full, in the period in which such losses are determined.

Changes in job performance, job conditions and estimated profitability, including those arising from contract penalty provisions and final contract settlements may result in revisions to costs and income and are recognized in the period in which the revisions are determined.

Costs and estimated earnings in excess of billings on uncompleted contracts represent revenues recognized in excess of amounts billed. Billings in excess of costs and estimated earnings on uncompleted contracts represent billings in excess of revenues recognized (Note 11).

NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (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 labour and a proportion of manufacturing overheads is 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).

Otokar Otomotiv ve Savunma Sanayi Anonim Şirketi

Notes to the Year End Financial Statements at 31 December 2015

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

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

Property, plant and equipment

All property and equipment is 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	30 years
Machinery and equipment	3-15 years
Vehicles	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.

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.

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

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.
- 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.

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 20% 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.

Otokar Otomotiv ve Savunma Sanayi Anonim Şirketi

Notes to the Year End Financial Statements at 31 December 2015

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

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

Deferred tax assets are presented net of deferred tax liabilities in the balance sheet.

Employee benefits

Defined benefit plans:

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.

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.

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

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.

Operating 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.

Warranty expenses

Warranty expenses are recorded as a result of repair and maintenance expenses for products produced and sold, authorized services' labour 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 Company's financial assets comprise cash and cash equivalents, trade receivables, receivables from related parties, financial investments and other receivables. Financial liabilities comprise financial loans, trade payables, due to related parties and other payables.

Financial assets with fixed or determinable payments and fixed maturities are classified as held to maturity when the Company has the positive intention and ability to hold to maturity. Financial assets which are ready for sale when considered the liquidity needs or the possible changes in interest rates, are classified as held for trading. Others except these are classified as ready for sale financial assets.

Available for sale investments

Investments intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or changes in interest rates are classified as available-for-sale. These are included in non-current assets unless management has the expressed intention of holding the investments for less than 12 months from the balance sheet date or unless they will need to be sold to raise operating capital, in which case they are included in current assets. Management reviews the classification of these financial assets on a regular basis.

The fair value of financial assets must be carried at cost less impairment, when the fair value of financial assets cannot be measured reliably.

Available for sale assets are carried at fair value after initial recognition. The fair value of available for sale financial assets is determined by the market price at the balance sheet date when available. If no market price is available, fair value is estimated based on valuation process by using discounted cash flow, similar purchases and observable market parameters.

Otokar Otomotiv ve Savunma Sanayi Anonim Şirketi

Notes to the Year End Financial Statements at 31 December 2015

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

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

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.

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 Company 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.

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 Company 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 Company 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.

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

Trade payables

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

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. Borrowing costs arising from bank loans are charged to the comprehensive income statement when they are incurred unless they are incurred for acquisition of a qualifying asset.

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 asset 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.

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.

Otokar Otomotiv ve Savunma Sanayi Anonim Şirketi

Notes to the Year End Financial Statements at 31 December 2015

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

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

Recognition and derecognition of financial assets and liabilities

The Company recognizes a financial asset or financial liability in its balance sheet when only when it becomes a party to the contractual provisions of the instrument. The Company 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 or cancelled or expires.

All regular way financial asset purchase and sales are recognized at the date of the transaction, the date the Company 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 Company 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.

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

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.

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.

All other borrowing costs are expensed in the period they occur. The Company did not capitalize any borrowing cost in the current year.

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.

Otokar Otomotiv ve Savunma Sanayi Anonim Şirketi

Notes to the Year End Financial Statements at 31 December 2015

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

NOTE 3 - SEGMENT REPORTING

As stated in Note 5, "Otokar Europe SAS" operations does not materially affect the financial statements, it has not been subject to consolidation and has been presented at historical cost value. Since the Company does not have different geographical and operational units, the Company does not make segment reporting and follows financial statements by one segment.

Since the Chief Executive Decision Maker does not monitor cost of sales, operating expenses and financial expenses, the products group is only monitored based on revenue. Thus, segment reporting is not performed.

NOTE 4 - CASH AND CASH EQUIVALENTS

	31 December 2015	31 December 2014
Cash at banks		
- Demand deposits	15.239	415.875
- Time deposits	56.506.362	42.551.560
Cheques and notes receivable	2.119.198	1.519.333
Other	95.266	40.929
Total	58.736.065	44.527.697

As of 31 December 2015, TL27.326.362 of time deposits are denominated in foreign currencies and their annual effective interest rate is 0,24% and has a maturity of 4 days. Annual effective interest rate of the remaining time deposits which amount to TL29.180.000 is 14,05% and has a maturity of 4 days.

(As of 31 December 2014, TL927.560 of time deposits are denominated in foreign currencies and their annual effective interest rate is 0,5% and has a maturity of 2 days. Annual effective interest rate of remaining time deposits which amount to TL41.624.000 is 10,98% and has a maturity of 2 days.)

Cheques and notes receivable consist of cheques and notes which are due as of balance sheet date and are sent to banks for collections.

As of 31 December 2015, the Company has restricted bank deposits amounting to TL795 (31 December 2014: TL862).

NOTE 5 - FINANCIAL INVESTMENTS

The Company has a subsidiary named "Otokar Europe SAS" with paid in capital of Euro 100.000 (TL 239.280), established on 18 August 2011, in France for the purpose of organizing export activities and increasing export sales. Since "Otokar Europe SAS" operations does not materially affect the financial statements, it has not been subject to consolidation and has been presented at historical cost value.

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Notes to the Year End Financial Statements at 31 December 2015

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

NOTE 6 - FINANCIAL LIABILITIES

31 December 2015			
	Maturities	Interest rate (%)	TL
Short-term bank borrowings (*)			
Denominated in TL (***)	4 January 2016	0,00	375.402
Total			375.402

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

Denominated in TL	8,09-14,65	105.178.069
Denominated in EUR	2,65	429.290
Total		105.607.359

31 December 2015			
	Maturities	Interest rate (%)	TL
Long-term bank borrowings (*)(**)			
Denominated in TL	14 April 2017- 3 September 2018	11,55-14,65	351.115.051
Denominated in EUR	10 February 2017- 21 September 2017	2,65-2,90	158.180.024
Total			509.295.075

(*) Bearing fixed interest rate

(**) Weighted average maturity days of long-term borrowings are 730.

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

Otokar Otomotiv ve Savunma Sanayi Anonim Şirketi

Notes to the Year End Financial Statements at 31 December 2015

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

NOTE 6 - FINANCIAL LIABILITIES (Continued)

			31 December 2014
	Maturities	Interest rate (%)	TL
Long-term bank borrowings (*)			
Denominated in TL (***)	2 January 2015-5 January 2015	0,00	524.367
Denominated in EUR	2 January 2015	3,11-3,17	29.227.510
Total			29.751.877

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

Denominated in TL	8,05-11,73	2.375.726
Denominated in EUR	2,04	43.539.774
Total		45.915.500

			31 December 2014
	Maturities	Interest rate (%)	TL
Long term bank borrowings (*)(**)			
Denominated in TL	11 March 2016-29 September 2017	8,82-11,73	230.794.141
Denominated in EUR	29 June 2016	3,66	43.052.830
Total			273.846.971

(*) Bearing fixed interest rate.

(**) Weighted average maturity days of long-term borrowings are 661.

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

As of 31 December 2015, the Company has not provided any guarantees for the borrowings (31 December 2014: None).

Notes to the Year End Financial Statements at 31 December 2015

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

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 Company's foreign currency sales.

	Contract amount	Current period Contract maturity	Fair value Assets
31 December 2015			
Forward transactions	55.435.650	7 January 2016- 14 January 2016	146.636
Short-term derivative financial instruments	55.435.650		146.636
Total derivative financial instruments	55.435.650		146.636
	Contract amount	Prior period Contract maturity	Fair value Assets
31 December 2014			
Forward transactions	137.947.680	8 January 2015- 5 February 2015	1.726.888
Short-term derivative financial instruments	137.947.680		1.726.888
Total derivative financial instruments	137.947.680		1.726.888

NOTE 8 - TRADE RECEIVABLES AND PAYABLES

Trade receivables

	31 December 2015	31 December 2014
Trade receivables, net	113.905.306	132.684.387
Notes receivables, net	148.699.225	107.194.793
	262.604.531	239.879.180
Less: provision for doubtful receivables	(25.056.794)	(22.526.772)
Short term trade receivables	237.547.737	217.352.408
Trade receivables from related parties (Note 27)	106.906.185	50.877.972
Short-term trade receivables	344.453.922	268.230.380
Long-term trade receivables, net	87.065.478	125.884.462
Long-term notes receivable, net	13.230.367	14.370.598
Long-term trade receivables	100.295.845	140.255.060

As of 31 December 2015, expect for the notes receivable, average collection term for trade receivables is 60 - 90 days (31 December 2014: 60 - 90 days).

Otokar Otomotiv ve Savunma Sanayi Anonim Şirketi

Notes to the Year End Financial Statements at 31 December 2015

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

NOTE 8 - TRADE RECEIVABLES AND PAYABLES (Continued)

Guarantees received for trade receivables

Receivables of the Company are mainly composed of minibuses and bus sales to dealers and trailer sales made in notes. As of 31 December 2015, the total trade receivable from dealers amounting to TL109.952.277 (31 December 2014: TL60.016.673) has been secured by mortgages and guarantees at the amount of TL108.683.872 (31 December 2014: TL126.993.500). The Company manages its credit risk for the remaining receivables through policies and procedures as explained in the Credit Risk section of Note 28.

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

31 December 2015	Trade receivables
1-30 day past due	-
1-3 month past due	-
3-12 month past due	-
1-5 year past due	187.248
Over 5 year past due	-
Total	187.248
Amount secured with guarantee (1)	187.248

31 December 2014	Trade receivables
1-30 day past due	-
1-3 month past due	-
3-12 month past due	152
1-5 year past due	174.176
Over 5 year past due	-
Total	174.328
Amount secured with guarantee (1)	173.035

(1) Pledges trailer vehicles.

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

The movement of the provision for doubtful receivables for the year ended December 31, 2015 and December 31, 2014 are as follows:

	2015	2014
1 January	22.526.772	21.961.122
Collections	(394.696)	(188)
Additional provision	2.924.718	565.838
31 December	25.056.794	22.526.772

Notes to the Year End Financial Statements at 31 December 2015

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

NOTE 8 - TRADE RECEIVABLES AND PAYABLES (Continued)

Trade payables

	31 December 2015	31 December 2014
Trade payables, net	138.397.815	70.978.759
Notes payables, net	252.300	224.700
Short-term trade payables to third parties	138.650.115	71.203.459
Trade payables to related parties	27.169.350	10.320.537
Short-term trade payables	165.819.465	81.523.996

As of 31 December 2015, average payment term for trade payables is 45-60 days (31 December 2014: 45-60 days).

NOTE 9 - OTHER TRADE RECEIVABLES AND PAYABLES

Other short-term receivables

	31 December 2015	31 December 2014
Due from personnel	2.090	958
Total	2.090	958

Other long-term receivables

	31 December 2015	31 December 2014
Deposits and guarantees given	65.853	101.585
Total	65.853	101.585

Other short-term payables

	31 December 2015	31 December 2014
Other miscellaneous payables	36.228.439	16.383.024
Total	36.228.439	16.383.024

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Notes to the Year End Financial Statements at 31 December 2015

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

NOTE 10 - INVENTORIES

	31 December 2015	31 December 2014
Raw materials	127.778.773	93.535.860
Semi-finished goods	14.932.656	16.423.428
Finished goods	148.982.557	33.518.461
Merchandises	58.112.743	50.425.115
Goods in transit	78.964.178	71.754.321
Impairment for inventories (*)	(795.363)	(1.494.757)
Total	427.975.544	264.162.428

(*) TL118.113 of impairment is related to finished goods (31 December 2014: TL1.356.002) and TL677.250 is related to merchandises (31 December 2014: TL138.755). The impairment has been accounted for under cost of sales.

The movements of impairment for inventories in 2015 and 2014 are as follows:

	2015	2014
1 January	(1.494.757)	(1.304.472)
Reversal of provision/(additional provision) (Note 21)	699.394	(190.285)
31 December	(795.363)	(1.494.757)

NOTE 11 - DUE FROM CUSTOMERS ON CONTRACT WORKS

Receivable from uncompleted contracts is TL188.278.141 as of 31 December 2015 (31 December 2014: TL129.854.389) after offsetting with short-term advances received.

As of 31 December 2015, the short-term advances received by the Company related with ongoing projects which amounts to TL79.705.827 was included under deferred revenues in the financial statements (31 December 2014: TL 113.014.910). The remaining TL74.756.786 which is included under deferred income is composed of other advances received from customers (31 December 2014: TL130.933.443) and other payables is amounting to TL21.830.112 (31 December 2014: TL19.854.068).

Notes to the Year End Financial Statements at 31 December 2015

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

NOTE 12 - PROPERTY, PLANT AND EQUIPMENT

For the years ended 31 December 2015 and 2014, the movement of property, plant and equipment and the accumulated depreciation are as follows:

	1 January 2015	Additions	Disposals	Transfers	31 December 2015
Cost:					
Land	37.456.746	-	-	-	37.456.746
Land and improvements	11.621.866	-	-	331.068	11.952.934
Buildings	60.170.668	-	-	369.115	60.539.783
Machinery and equipment	108.389.066	2.106.806	(11.787.190)	464.255	99.172.937
Motor vehicles	9.169.102	314.541	(1.055.861)	-	8.427.782
Furniture and fixtures	34.568.907	2.001.683	(8.385.743)	268.558	28.453.405
Leasehold improvements	2.841.765	81.659	(824.362)	-	2.099.062
Construction in progress	2.355.130	1.845.343	-	(3.236.079)	964.394
	266.573.250	6.350.032	(22.053.156)	(1.803.083)	249.067.043
Accumulated depreciation:					
Land and improvements	(6.176.947)	(648.706)	-	-	(6.825.653)
Buildings	(31.891.231)	(2.821.508)	-	-	(34.712.739)
Machinery and equipment	(87.805.628)	(5.419.005)	11.780.488	-	(81.444.145)
Motor vehicles	(4.737.483)	(717.615)	307.591	-	(5.147.507)
Furniture and fixtures	(21.866.594)	(2.359.706)	8.371.614	-	(15.854.686)
Leasehold improvements	(1.835.312)	(314.024)	824.362	-	(1.324.974)
	(154.313.195)	(12.280.564)	21.284.055	-	(145.309.704)
Net book value	112.260.055				103.757.339
	1 January 2014	Additions	Disposals	Transfers	31 December 2014
Cost:					
Land	37.456.746	-	-	-	37.456.746
Land and improvements	11.309.351	22.539	-	289.976	11.621.866
Buildings	60.170.668	-	-	-	60.170.668
Machinery and equipment	111.943.555	2.304.508	(6.344.057)	485.060	108.389.066
Motor vehicles	7.957.194	1.660.100	(448.192)	-	9.169.102
Furniture and fixtures	31.761.624	2.259.922	(121.110)	668.471	34.568.907
Leasehold improvements	2.734.585	27.581	-	79.599	2.841.765
Construction in progress	1.778.321	2.498.750	-	(1.921.941)	2.355.130
	265.112.044	8.773.400	(6.913.359)	(398.835)	266.573.250
Accumulated depreciation:					
Land and improvements	(4.654.789)	(1.522.158)	-	-	(6.176.947)
Buildings	(29.073.222)	(2.818.009)	-	-	(31.891.231)
Machinery and equipment	(86.240.277)	(7.852.167)	6.286.816	-	(87.805.628)
Motor vehicles	(4.071.036)	(752.826)	86.379	-	(4.737.483)
Furniture and fixtures	(18.760.344)	(3.202.956)	96.706	-	(21.866.594)
Leasehold improvements	(1.469.753)	(365.559)	-	-	(1.835.312)
	(144.269.421)	(16.513.675)	6.469.901	-	(154.313.195)
Net book value	120.842.623				112.260.055

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Notes to the Year End Financial Statements at 31 December 2015

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

NOTE 12 - PROPERTY, PLANT AND EQUIPMENT (Continued)

For the years ended 31 December 2015 and 2014, the allocation of depreciation and amortization expenses of property, plant and equipment and intangibles are as follows:

	31 December 2015	31 December 2014
Research and development expenses	34.230.530	27.832.162
Costs related to uncompleted contracts	3.009.620	7.754.889
Cost of goods sold	5.040.622	5.604.003
Development projects in process	1.989.862	1.903.383
Depreciation on outstanding inventories	1.085.521	1.477.713
General administrative expenses	1.692.488	1.118.856
Selling and marketing expenses	1.214.169	504.948
Total	48.262.812	46.195.954

NOTE 13 - INTANGIBLE ASSETS

For the years ended 31 December 2015 and 2014, the movement of intangible assets and the accumulated amortization is as follows:

	1 January 2015	Additions	Disposals	Transfers	31 December 2015
Cost:					
Other intangible assets	13.530.710	898.037	-	1.803.083	16.231.830
Development costs	186.078.994	-	(819.200)	57.360.103	242.619.897
Development projects in progress	40.525.892	48.058.244	-	(57.360.103)	31.224.033
	240.135.596	48.956.281	(819.200)	1.803.083	290.075.760
Accumulated amortization:					
Other intangible assets	(10.221.496)	(1.751.718)	-	-	(11.973.214)
Development costs	(88.466.591)	(34.230.530)	13.653	-	(122.683.468)
	(98.688.087)	(35.982.248)	13.653	-	(134.656.682)
Net book value	141.447.509				155.419.078

Notes to the Year End Financial Statements at 31 December 2015

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

NOTE 13 - INTANGIBLE ASSETS (Continued)

For the year ended December 31, 2014, the movement of intangibles and accumulated amortization is as follows:

	1 January 2014	Additions	Disposals	Transfers	31 December 2014
Cost:					
Other intangible assets	12.289.381	842.494	-	398.835	13.530.710
Development costs	147.369.338	-	-	38.709.656	186.078.994
Development projects in progress	35.639.826	43.595.722	-	(38.709.656)	40.525.892
	195.298.545	44.438.216	-	398.835	240.135.596
Accumulated amortization:					
Other intangible assets	(8.371.380)	(1.850.116)	-	-	(10.221.496)
Development costs	(60.634.428)	(27.832.163)	-	-	(88.466.591)
	(69.005.808)	(29.682.279)	-	-	(98.688.087)
Net book value	126.292.737				141.447.509

NOTE 14 - GOVERNMENT GRANTS AND INCENTIVES

	31 December 2015	31 December 2014
Short-term	2.056.306	2.033.845
Long-term	5.570.470	7.162.947
Total	7.626.776	9.196.792

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

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Notes to the Year End Financial Statements at 31 December 2015

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NOTE 15 - PROVISIONS, CONTINGENT ASSETS AND LIABILITIES

Short-term provisions

	31 December 2015	31 December 2014
Provision for other costs	233.120.100	153.473.113
Warranty provision	26.397.052	18.180.739
Short-term provisions for employee benefits		
Foundation employer's share of	6.651.542	5.381.838
social security premium	2.925.000	2.925.000
Provision for license costs	1.316.079	1.264.726
Provision for legal cases	100.000	100.000
Other	5.790.382	433.227
Total	276.300.155	181.758.643

Long-term provisions

	31 December 2015	31 December 2014
Warranty provision	9.433.926	4.434.349
Total	9.433.926	4.434.349

Provision for other costs

Includes costs incurred by the Company related with tank project, which were not charged yet, and costs incurred by the subcontractors that will be invoiced to the Company at the end of the project, which were computed according to the estimated percentage of completion. The movement of provision for other costs is as follows:

	2015	2014
1 January	153.473.113	76.011.181
Additional provision/ (payment), net	58.423.534	67.226.997
Foreign exchange valuation	21.223.453	10.234.935
31 December	233.120.100	153.473.113

Warranty provision

The Company provides one year warranty for minibuss and Land Rover vehicles and 2 years warranty for certain armoured vehicle models and commercial vehicles sold. Therefore, warranty expense provision has been recorded only for the vehicles under guarantee as of the balance sheet date. The movement of the warranty expense provision is as follows:

	2015	2014
1 January	22.615.088	25.256.158
Additional provision (Note 21)	53.642.174	23.001.911
Realized payments	(40.426.284)	(25.642.981)
31 December	35.830.978	22.615.088

Notes to the Year End Financial Statements at 31 December 2015

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

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

Provision for license costs

The movements of provision for license costs are as follows:

	31 December 2015	31 December 2014
1 January	1.264.726	735.433
Additional provision	1.513.663	1.934.544
Realized	(1.462.310)	(1.405.251)
31 December	1.316.079	1.264.726

Commitments and contingencies

As of 31 December 2015 and 31 December 2014, the tables which represent the position of guarantees, pledges and mortgages are as follows:

	31 December 2015	31 December 2014
a. Total amount of guarantees, pledges and mortgages given the name of legal entity	1.226.251.723	846.743.403
b. Total amount of guarantees, pledges and mortgages given in favour of the parties which are included in the scope of full consolidation	-	-
c. Total amount of guarantees, pledges and mortgages given to third parties for their liabilities in the purpose of conducting the ordinary operations	-	-
d. Total amount of other guarantees, pledges and mortgages	-	-
Total	1.226.251.723	846.743.403

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

	31 December 2015		31 December 2014	
	Original currency	TL equivalent	Original currency	TL Equivalent
USD	293.815.364	854.297.554	236.106.385	547.507.096
EUR	54.315.986	172.594.478	38.486.835	108.559.815
TL	199.359.691	199.359.691	190.676.492	190.676.492
Total		1.226.251.723		846.743.403

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Notes to the Year End Financial Statements at 31 December 2015

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

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

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

	31 December 2015	31 December 2014
Guarantee letters given		
Undersecretariat of Ministry of Defence	751.262.190	462.293.181
Other(*)	474.989.533	384.450.222
Total	1.226.251.723	846.743.403

(*) Guarantee letters given amounting to TL276.912.365 are given to the public entities (31 December 2014: TL232.283.464).

Guarantee letters

a) Guarantees given as of 31 December 2015 and 31 December 2014 are as follows:

	31 December 2015	31 December 2014
Bank letters of guarantee (*)	1.226.251.723	846.743.403
	1.226.251.723	846.743.403

(*) Bank letters of guarantee amounting to TL723.539.489 are given to Secretariat of Ministry of Defence for Altay Project (31 December 2014: TL458.062.131).

b) Guarantees received as of 31 December 2015 and 31 December 2014 are as follows:

	31 December 2015	31 December 2014
Bank letters of guarantee (**)	474.011.532	346.144.591
Guarantee notes	17.653.397	24.410.289
Mortgages received	582.000	842.000
Guarantee bills	-	6.548.000
Total	492.246.929	377.944.880

(**) Bank letters of guarantee amounting to TL236.503.977 are obtained from the sub-contractors for Altay Project (31 December 2014: TL156.811.967).

Contingent asset

The legal case related to tax deduction for the research and development activities in 2010 was concluded in favour of the Company and TL2.923.627 was refunded to the Company. The same case for 2011-2012-2013 is still in progress at appeal phase. The Company has appealed for the same case of 2014 and it is still in progress. Total amount of cases at the appeal phase relating to years 2011, 2012 and 2013 amount to TL31.707.241, the amount of the legal case for 2014 is TL 4.461.395.

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Notes to the Year End Financial Statements at 31 December 2015

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

NOTE 16 - EMPLOYEE BENEFITS

	31 December 2015	31 December 2014
Provision for employment termination benefits	22.321.490	20.969.191
Provision for unused vacation	6.651.542	5.381.838
Total	28.973.032	26.351.029

Employment termination benefits

There are no agreements for pension commitments other than the legal requirements as explained below.

Under the Turkish Labour Law, the Company is required to pay termination benefits to each employee who has completed one year of service and whose employment is terminated without due cause, or who is called up for military service, dies or retires after completing 25 years of service (20 years for women) and achieves the retirement age.

The amount payable consists of one month's salary limited to a maximum of TL 3.828 for each year of service as of December 31, 2015 (December 31, 2014 - TL 3.438).

The liability is not funded, as there is no funding requirement.

The provision has been calculated by estimating the present value of the future probable obligation of the Company arising from the retirement of the employees.

Turkish Accounting Standards promulgated by POA require actuarial valuation methods to be developed to estimate the enterprises' obligation under defined benefit plans. Accordingly, the following actuarial assumptions were used in the calculation of the total liability:

	31 December 2015	31 December 2014
Net discount rate (%)	4,60	3,50
Turnover rate to estimate the probability of retirement (%)	97,60	97,41

The principal assumption is that the maximum liability for each year of service will increase in line with inflation. Thus the discount rate applied represents the expected real rate after adjusting for the anticipated effects of future inflation.

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

	2015	2014
1 January	20.969.191	16.173.142
Interest expense	1.897.712	1.463.669
Charge for the period	4.728.224	4.760.755
Remeasurement (gains)/losses	(1.756.965)	2.141.752
Payments	(3.516.672)	(3.570.127)
31 December	22.321.490	20.969.191

Otokar Otomotiv ve Savunma Sanayi Anonim Şirketi

Notes to the Year End Financial Statements at 31 December 2015

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

NOTE 16 - EMPLOYEE BENEFITS (Continued)

Provision for unused vacation

The movements of provision for unused vacation are as follows:

	2015	2014
1 January	5.381.838	4.443.081
Charge for the period net (Note 21)	1.269.704	938.757
31 December	6.651.542	5.381.838

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

a) Prepaid expenses:

	31 December 2015	31 December 2014
Advances given	119.060.514	75.972.542
Prepaid expenses	3.631.034	3.024.452
Total	122.691.548	78.996.994

b) Other current assets:

	31 December 2015	31 December 2014
Value added tax receivables	62.891.217	11.466.073
Other	2.795.945	840.798
Total	65.687.162	12.306.871

c) Deferred revenues:

Deferred revenues - short term	31 December 2015	31 December 2014
Deferred maintenance revenues (*)	21.830.112	19.378.209
Other deferred revenues	-	475.859
Advances received (Note 11)	154.462.613	243.948.353
Total	176.292.725	263.802.421
Deferred revenues - long term	31 December 2015	31 December 2014
Deferred maintenance revenues (*)	28.312.416	44.510.646
Total	28.312.416	44.510.646

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

Notes to the Year End Financial Statements at 31 December 2015

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

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

d) Employee benefits obligation:

	31 December 2015	31 December 2014
Payables to employees	9.776.832	9.237.281
Social security payables	4.060.123	3.753.058
Taxes and funds payable	4.300.629	4.115.858
Total	18.137.584	17.106.197

e) Other current liabilities:

	31 December 2015	31 December 2014
Tax and fund payable	915.723	1.544.485
Deferred special consumption tax	638.813	92.889
Other	424.033	388.029
Total	1.978.569	2.025.403

NOTE 18 - EQUITY

Share Capital

As of December 31, 2015 and 2014, the principal shareholders and their respective shareholding percentages are as follows:

	31 December 2015		31 December 2014	
	TL	%	TL	%
Koç Holding A.Ş.	10.722.750	44,68	10.722.750	44,68
Ünver Holding A.Ş.	5.954.944	24,81	5.954.944	24,81
Other	7.322.306	30,51	7.322.306	30,51
Total	24.000.000	100,00	24.000.000	100,00
Inflation adjustment on equity items	52.743.030		52.743.030	
Total	76.743.030		76.743.030	

Retained earnings, as per the statutory financial statements, other than legal reserve, are available for distribution, subject to the legal reserve requirement referred to below.

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.

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Notes to the Year End Financial Statements at 31 December 2015

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NOTE 18 - EQUITY (Continued)

Listed companies distribute dividend in accordance with the Communiqué No. II-19.1 issued by the CMB which is effective from February 1, 2014.

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 Company.

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.

As of 31 December 2015, in the financial statements of the Company prepared in accordance with financial reporting standards published by Capital Markets Board, net income of the year and prior year profits including other reserves to be distributed as dividend is TL79.506.151 (31 December 2014 – TL72.771.198) and TL46.011.054 (December 31, 2014 – TL61.119.856), respectively. Current year net income of the Company in statutory books is TL 47.807.290 (31 December 2014 - TL48.745.799), other reserves to be distributed as dividend (without being subject to additional taxation) is TL131.308.884 (December 31, 2014 – TL170.262.048). In addition, in statutory books there is TL19.702.874 of inflation adjustment and TL16.224.790 of other capital reserves that are subject to taxation if they are distributed.

After deduction of first legal reserves, current year net profit in statutory books is TL 47.807.290 (December 31, 2014 – TL 48.745.799). As of report date, there is no decision of dividend distribution related to 2015.

In accordance with the Communiqué, as of December 31, 2015 and December 31, 2014, the details of equity, based on which the dividend will be distributed is as follows:

	31 December 2015	31 December 2014
Paid-in share capital	24.000.000	24.000.000
Inflation adjustment on equity items	52.743.030	52.743.030
Restricted reserves	46.838.147	38.958.147
Accumulated other comprehensive income and expense that is not subject to reclassification to income or loss	(3.859.283)	(5.264.855)
Retained earnings		
- Extraordinary reserves	35.060.971	50.169.773
- Inflation adjustments on legal reserves	10.950.083	10.950.083
Net income for the year	79.506.151	72.771.198
Total	245.239.099	244.327.376

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

NOTE 18 - EQUITY (Continued)

As of December 31, 2015 and 2014, the restated amounts and the equity restatement differences of the aforementioned nominal values are as follows:

	31 December 2015		
	Historical value	Inflation adjustments on equity items	Restated value
Share capital	24.000.000	52.743.030	76.743.030
Legal reserves	46.838.147	10.950.083	57.788.230
Total	70.838.147	63.693.113	134.531.260

	31 December 2014		
	Historical value	Inflation adjustments on equity items	Restated value
Share capital	24.000.000	52.743.030	76.743.030
Legal reserves	38.958.147	10.950.083	49.908.230
Total	62.958.147	63.693.113	126.651.260

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

	31 December 2015	31 December 2014
Legal reserves	46.838.147	38.958.147
Extraordinary reserves	131.308.884	170.262.048
Total	178.147.031	209.220.195
Dividends distributed during the year based on previous year's net income per statutory financial statements	80.000.000	100.000.000
Dividend paid per share (kuruş)	0,333	0,417

The Company's share capital is fully paid, and consists of 24.000.000.000 shares with kuruş 0,1 par value each.

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Notes to the Year End Financial Statements at 31 December 2015

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NOTE 19 - SALES AND COST OF SALES

Net sales

	1 January - 31 December 2015	1 January - 31 December 2014
Domestic sales	1.023.161.185	996.239.221
Export sales	419.631.436	237.408.664
Gross sales	1.442.792.621	1.233.647.885
Less: sales discounts and returns	(8.824.734)	(2.014.113)
Net sales	1.433.967.887	1.231.633.772

Sales of the Company for the years ended 1 January - 31 December 2015 and 2014 in terms of the products are as follows:

	1 January - 31 December 2015	1 January - 31 December 2014
Commercial vehicle	648.616.536	584.579.551
Armoured vehicle	403.763.175	368.352.294
Other (*)	381.588.176	278.701.927
Total	1.433.967.887	1.231.633.772

(*) TL191.121.291 of this amount is related to revenues of uncompleted contracts (2014: TL173.638.752); the remaining balance amounting to TL190.466.885 is consisted of spare parts, maintenance & repairment and other revenues (2014: TL105.063.175).

Cost of sales

	1 January - 31 December 2015	1 January - 31 December 2014
Cost of finished goods sold	(969.683.214)	(866.659.479)
Cost of merchandise goods sold	(93.343.247)	(52.868.921)
Total	(1.063.026.461)	(919.528.400)

Notes to the Year End Financial Statements at 31 December 2015

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

	1 January - 31 December 2015	1 January - 31 December 2014
Marketing expenses	(179.773.869)	(132.494.804)
General administrative expenses	(49.337.559)	(39.819.107)
Research and development expenses	(35.321.089)	(28.658.352)
Total	(264.432.517)	(200.972.263)

NOTE 21 - EXPENSES BY NATURE

	1 January - 31 December 2015	1 January - 31 December 2014
Cost of raw material and consumption goods	937.566.869	738.218.024
Change in finished goods and work-in-process	(113.973.324)	(3.488.671)
Cost of merchandises sold	93.343.247	52.868.921
Depreciation and amortization expense	45.187.429	43.787.623
Personnel expenses	157.888.134	140.876.680
Operational expenses	33.690.164	28.590.764
Administrative expenses	34.197.342	28.263.200
Warranty reserve expense (Note 15)	53.642.174	23.001.911
Exhibition and fair expenses	6.697.611	8.600.627
Transportation,distribution and storage expenses	15.107.913	12.703.060
Advertisement and promotion expenses	2.306.171	2.463.092
Provisions of impairment for inventories (Not10)	(699.394)	190.285
Other expenses	62.504.642	44.425.147
Total	1.327.458.978	1.120.500.663

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Notes to the Year End Financial Statements at 31 December 2015

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

NOTE 21 - EXPENSES BY NATURE (Continued)

The breakdown of personnel expenses is as follows:

	1 January - 31 December 2015	1 January - 31 December 2014
With respect to the account:		
Cost of sales and inventories on hand	84.056.162	72.274.288
Costs related to uncompleted contracts	23.194.843	22.150.288
Capitalized development expenditures	22.875.600	21.512.662
General administrative expenses	20.512.531	19.287.015
Marketing expenses	29.034.039	25.941.164
Research and development expenses	1.090.559	1.223.925
Total	180.763.734	162.389.342
	1 January - 31 December 2015	1 January - 31 December 2014
By nature:		
Wages and salaries	132.802.499	117.961.866
Social security premiums	23.980.763	21.100.702
Other social benefits	16.084.832	16.163.593
Provision for employment termination benefits	6.625.936	6.224.424
Provision for vacation pay liability	1.269.704	938.757
Total	180.763.734	162.389.342

NOTE 22 - OTHER OPERATING INCOME/EXPENSE

	1 January - 31 December 2015	1 January - 31 December 2014
Other operating income		
Foreign exchange gain from trade receivable/ payables	34.940.155	40.947.942
Forward transaction income	38.526.757	20.631.246
Maturity difference income	14.033.204	17.822.903
Incentive income	2.033.845	1.165.442
Other	11.730.388	6.633.435
Total	101.264.349	87.200.968
	1 January - 31 December 2015	1 January - 31 December 2014
Other operating expense		
Foreign exchange loss from trade receivable/ payables	(32.387.406)	(63.369.553)
Forward transaction expenses	(32.718.137)	(9.163.505)
Provision for doubtful receivables (Note 8)	(2.924.718)	(565.838)
Provision for foundation employer's share of social security Premium	-	(2.925.000)
Other expenses	(82.529)	(391.234)
Total	(68.112.790)	(76.415.130)

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NOTE 23 - FINANCIAL INCOME

	1 January - 31 December 2015	1 January - 31 December 2014
Interest income from time deposits	768.391	1.461.384
Foreign exchange gains on deposits	4.620.326	3.267.519
Foreign exchange gains on bank borrowings	7.002.085	9.738.700
Total	12.390.802	14.467.603

NOTE 24 - FINANCIAL EXPENSES

	1 January - 31 December 2015	1 January - 31 December 2014
Interest expense on bank borrowings	(40.417.977)	(42.069.785)
Foreign exchange losses on deposits	(8.018.503)	(2.981.715)
Foreign exchange losses on bank borrowings	(17.254.290)	(9.607.100)
Total	(65.690.770)	(54.658.600)

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 20% (2014 - 20%). Corporate tax returns are required to be filed by the twenty-fifth day of the fourth month following the balance sheet date and taxes must be paid in one installment by the end of the fourth month. The tax legislation provides for a temporary tax of 20% to be calculated and paid based on earnings generated for each quarter. The amounts thus calculated and paid are offset against the final corporate tax liability for the year.

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.

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NOTE 25 - TAX ASSETS AND LIABILITIES (Continued)

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 2015 and 2014.

As a result of its research and development expenditures made in 2015 amounting to TL 40.641.115 (2014 – TL 35.561.875), the Company has utilized research and development incentives at 100% deduction without any withholding tax. The Company has an R&D centre certificate.

As of 31 December 2015 and 31 December 2014, income tax payables are presented net of prepaid taxes in the balance sheet as follows:

	31 December 2015	31 December 2014
Income tax payable	6.844.679	4.642.432
Less-prepaid tax	(4.750.985)	(6.749.150)
Income tax payable	2.093.694	(2.106.718)

The breakdown of total tax expense for the years ended 31 December 2015 and 2014 are as follows:

	31 December 2015	31 December 2014
Current tax charge	(6.663.642)	(4.581.854)
Deferred tax income		
Tax charged to profit for the period	(1.670.510)	(4.430.796)
Tax charged to other comprehensive income/expense	(351.393)	428.350
Total tax expense	(8.685.545)	(8.584.300)

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

	1 January - 31 December 2015	1 January - 31 December 2014
Profit before tax	87.840.303	81.783.848
Income tax charge at effective tax rate 20%	(17.568.061)	(16.356.770)
Effect of exemptions and incentives	8.128.223	7.480.147
Other differences	754.293	(136.027)
Total tax expense	(8.685.545)	(9.012.650)

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NOTE 25 - TAX ASSETS AND LIABILITIES (Continued)

As of 31 December 2015 and 31 December 2014, 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 2015	31 December 2014	31 December 2015	31 December 2014
Property, plant and equipment	(10.992.437)	(10.686.872)	1.282.807	1.343.920
Intangible assets	(26.282.311)	(24.037.595)	(5.256.462)	(4.807.519)
Deferred financial expense	(900.574)	(483.877)	(180.115)	(96.775)
Inventories	805.990	1.549.110	161.198	309.822
Warranty provision	35.830.978	22.615.088	7.166.196	4.523.018
Provision for employment termination benefits	22.321.490	20.969.191	4.464.298	4.193.838
Deferred financial income	7.933.694	14.148.535	1.586.739	2.829.707
Other provisions	14.808.853	9.358.416	2.961.770	1.871.684
Deferred maintenance income	50.142.528	63.888.855	10.028.506	12.777.771
Due from customers on contract works	69.655.901	73.915.663	13.931.180	14.783.133
Other	5.837.770	8.034.875	1.167.554	1.606.975
Deferred tax asset, net			37.313.671	39.335.574

The movement of deferred tax asset for the years ended 31 December 2015 and 2014 are as follows:

	31 December 2015	31 December 2014
1 January	39.335.574	43.338.020
Deferred tax income charged to other comprehensive income		
Tax charged to profit for the period	(1.670.510)	(4.430.796)
Tax charged to other comprehensive income/expense	(351.393)	428.350
Total	37.313.671	39.335.574

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 2015	31 December 2014
Net income attributable to shareholders (TL)	79.506.151	72.771.198
Weighted average number of issued shares	24.000.000.000	24.000.000.000
Earnings per share (Kuruş)	0,331	0,303

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NOTE 27 - RELATED PARTY DISCLOSURES

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

i) Due from and due to related party balances as of 31 December 2015 and 31 December 2014:

Due from related parties	31 December 2015	31 December 2014
Ram Dış Ticaret A.Ş. (1) (*)	99.343.743	38.705.221
Otokar Europe SAS (3)	6.742.250	11.434.239
Türk Traktör ve Ziraat Makineleri A.Ş. (1)	413.262	7.029
Ford Otosan A.Ş. (2)	390.673	731.483
Other (1)	16.257	-
Total	106.906.185	50.877.972

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

Due to related parties	31 December 2015	31 December 2014
Ram Dış Ticaret A.Ş. (1)	14.026.345	3.472.371
Koç Holding A.Ş. (2)	5.992.481	1.571.510
Zer Merkezi Hizmetler A.Ş. (1)	3.244.001	2.347.607
Setur Servis Turistik A.Ş. (1)	1.029.066	464.983
Ram Sigorta Aracılık Hz. A.Ş. (1)	657.447	342.279
Eltek Elektrik Enerji İth. İhr. Top. Tic. A.Ş.(1)	492.530	392.345
Divan Turizm İşletmeleri A.Ş. (1)	442.943	356.386
Opet Fuchs Madeni Yağ A.Ş. (1)	398.558	408.031
Akpa Dayanıklı Tük. Paz. A.Ş. (1)	315.837	200.402
Otokoç Otomotiv Tic. ve San. A.Ş. (1)	269.119	223.877
Koç Sistem Bilgi ve İletişim Hiz. A.Ş. (1)	202.101	313.039
Opet Petrolcülük A.Ş. (1)	84.837	84.853
Other (1)	14.085	142.854
Total	27.169.350	10.320.537

- (1) Related parties of parent company
(2) Shareholder
(3) The Company's subsidiary not in scope of consolidation

Otokar Otomotiv ve Savunma Sanayi Anonim Şirketi

Notes to the Year End Financial Statements at 31 December 2015

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

NOTE 27 - RELATED PARTY DISCLOSURES (Continued)

ii) Major sales and purchase transactions with related parties as of 31 December 2015 and 31 December 2014 are as follows:

Product sales and service revenue	1 January – 31 December 2015	1 January – 31 December 2014
Ram Dış Ticaret A.Ş. (1) (*)	336.302.787	168.169.474
Otokar Europe SAS (3)	14.129.382	20.934.006
Türk Traktör ve Ziraat Makineleri A.Ş. (1)	1.565.239	5.329.327
Aygaz A.Ş. (1)	600.845	93.938
Ford Otosan A.Ş. (2)	1.563	180.456
Otokoç Otomotiv Tic. ve San. A.Ş. (1)	589	551
RMK Marine Gemi Yap. San. İşl. A.Ş. (1)	-	485
Total	352.600.405	194.708.237

(*) Certain portion of export sales are realized through Ram Dış Ticaret A.Ş. as export registered sales, accordingly the amount composed of accounts receivables arising on these transactions.

Purchase of property, plant and equipment	1 January – 31 December 2015	1 January – 31 December 2014
Koç Sistem Bilgi ve İletişim Hizm. A.Ş. (1)	1.029.492	1.451.331
Zer Merkezi Hizmetler A.Ş. (1)	240.788	415.419
Otokoç Otomotiv Tic. ve San. A.Ş. (1)	161.901	65.563
Setur Servis Turistik A.Ş. (1)	18.878	-
Arçelik A.Ş. (1)	13.360	29.481
Koçtaş Yapı Marketleri A.Ş. (1)	6.680	14.831
Total	1.471.099	1.976.625

Inventories purchased	1 January – 31 December 2015	1 January – 31 December 2014
Zer Merkezi Hizmetler A.Ş. (1)	19.356.732	15.982.698
Ram Dış Ticaret A.Ş. (1)	6.191.802	3.764.118
Akpa Dayanıklı Tük.Paz. A.Ş. (1)	2.451.134	2.557.507
Opet Fuchs Madeni Yağ A.Ş. (1)	2.438.783	2.110.127
Opet Petrolcülük A.Ş. (1)	1.783.556	1.929.808
Koçtaş Yapı Marketleri A.Ş. (1)	51.992	659.433
Arçelik A.Ş. (1)	4.572	6.255
Ford Otosan A.Ş. (2)	4.010	38.091
Diğer (1)	3.888	342.036
Total	32.286.469	27.390.073

- (1) Related parties of parent company
 (2) Shareholder
 (3) The Company's subsidiary not in scope of consolidation

Otokar Otomotiv ve Savunma Sanayi Anonim Şirketi

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NOTE 27 - RELATED PARTY DISCLOSURES (Continued)

Services purchased	1 January – 31 December 2015	1 January – 31 December 2014
Ram Dış Ticaret A.Ş. (1)	22.772.787	9.303.902
Koç Holding A.Ş. (2) (*)	8.077.173	3.778.564
Otokar Europe SAS (3)	5.997.962	3.110.024
Setur Servis Turistik A.Ş. (1)	5.680.190	4.478.977
Eltek Elektrik Enerji İth. İhr.Top.Tic. A.Ş. (1)	5.425.587	4.003.560
Ram Sigorta Aracılık Hz. A.Ş. (1) (**)	2.821.729	10.882
Otokoç Otomotiv Tic. ve San. A.Ş. (1)	2.193.307	1.943.049
Koç Sistem Bilgi ve İlt. Hizm. A.Ş. (1)	1.323.322	1.026.339
Divan Turizm İşletmeleri A.Ş. (1)	465.553	352.158
Setair Hava Taşımacılığı ve Hizm. A.Ş. (1)	301.963	164.704
Other (1)	392.148	315.886
Total	55.451.721	28.488.045

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

(**) It includes paid and accrued premium as of December 31, 2015 in accordance with insurance policies signed between unrelated insurance companies via Ram Sigorta Aracılık Hizmetleri A.Ş. which is an insurance agency.

Banks deposits	31 December 2015	31 December 2014
Yapı ve Kredi Bankası A.Ş. (1)		
- Demand deposits	2.931	78.461
- Time deposits	33.072.560	1.353.000
Total	33.075.491	1.431.461

Checks and notes in collection	31 December 2015	31 December 2014
Yapı ve Kredi Bankası A.Ş. (1)	25.716.139	24.644.202
Total	25.716.139	24.644.202

Borrowings	31 December 2015	31 December 2014
Yapı ve Kredi Bankası A.Ş. (1)	40.176.227	122.670.359
Total	40.176.227	122.670.359

(1) Related parties of parent company

(2) Shareholder

(3) The Company's subsidiary not in scope of consolidation

Notes to the Year End Financial Statements at 31 December 2015

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

NOTE 27 - RELATED PARTY DISCLOSURES (Continued)

For the years ended 31 December 2015 and 2014, other income and expense with related parties:

	1 January – 31 December 2015	1 January – 31 December 2014
Exchange gain from trade receivables and payables		
Ram Dış Ticaret A.Ş. (1)	9.539.639	11.631.730
Yapı Kredi Faktoring A.Ş. (1)	3.026.053	-
Otokar Europe SAS (3)	396.073	800.030
Other (1)	63.976	10.851
Total	13.025.741	12.442.611

	1 January – 31 December 2015	1 January – 31 December 2014
Exchange loss from trade receivables and payables		
Ram Dış Ticaret A.Ş. (1)	23.994.845	2.561.864
Otokar Europe SAS (3)	202.801	199.283
Other (1)	99.961	30.360
Total	24.297.607	2.791.507

For the years ended 31 December 2015 and 2014, financial income and expense with related parties:

	1 January – 31 December 2015	1 January – 31 December 2014
Interest income		
Yapı ve Kredi Bankası A.Ş. (1)	62.271	227.077
Total	62.271	227.077

	1 January – 31 December 2015	1 January – 31 December 2014
Interest expense		
Yapı ve Kredi Bankası A.Ş. (1)	6.118.370	5.308.650
Total	6.118.370	5.308.650

(1) Related parties of parent company

(3) The Company's subsidiary not in scope of consolidation

Otokar Otomotiv ve Savunma Sanayi Anonim Şirketi

Notes to the Year End Financial Statements at 31 December 2015

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

NOTE 27 - RELATED PARTY DISCLOSURES (Continued)

For the years ended 31 December 2015 and 2014, financial income and expense with related parties:

	1 January – 31 December 2015	1 January – 31 December 2014
Foreign exchange gains		
Yapı ve Kredi Bankası A.Ş. (1)	3.282.564	10.816.751
Total	3.282.564	10.816.751
	1 January – 31 December 2015	1 January – 31 December 2014
Foreign exchange loss		
Yapı ve Kredi Bankası A.Ş. (1)	5.167.790	7.827.910
Total	5.167.790	7.827.910

(1) Related parties of parent company

Benefits to key management

Salaries and similar benefits provided to the executive management by the Company for the nine month period ended 31 December 2015 amounted to TL 10.840.763 (31 December 2014: TL 9.867.303). Executives are composed of board of directors members, general manager and assistants of general manager.

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

The Company 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 Company'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 Company.

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 Company mainly arises from trade receivables. The Company manages this risk that may arise from its dealers or from other customers by restricting the credit limits determined for the dealers according 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 Company 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 Company 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).

Notes to the Year End Financial Statements at 31 December 2015

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

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

	Receivables			
	Trade receivables	Other	Bank deposits	Derivative instruments
31 December 2015				
Maximum credit risk exposure as of reporting date (A+B+C+D+E) (1)	444.749.767	67.943	56.521.601	-
- Maximum risk secured by guarantee (2)	(203.683.654)	-	-	-
A. Net book value of financial assets neither overdue nor impaired	441.619.979	67.943	56.521.601	-
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	187.248	-	-	-
D. Net book value of impaired assets	2.942.540	-	-	-
- Overdue (gross book value)	27.999.334	-	-	-
- Impairment (-) (Note 8)	(25.056.794)	-	-	-
- Net value under guarantee	1.225.992	-	-	-
- Not overdue (gross book value)	-	-	-	-
- Impairment (-)	-	-	-	-
- Net value under guarantee	-	-	-	-
E. Off- balance sheet items having credit risk	-	-	-	-

	Receivables			
	Trade receivables	Other	Bank deposits	Derivative instruments
31 December 2014				
Maximum credit risk exposure as of reporting date (A+B+C+D+E) (1)	408.485.440	102.543	42.967.435	-
- Maximum risk secured by guarantee (2)	(148.988.470)	-	-	-
A. Net book value of financial assets neither overdue nor impaired	404.379.148	102.543	42.967.435	-
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	174.328	-	-	-
D. Net book value of impaired assets	3.931.964	-	-	-
- Overdue (gross book value)	26.458.736	-	-	-
- Impairment (-) (Note 8)	(22.526.772)	-	-	-
- Net value under guarantee	3.931.964	-	-	-
- 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.

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Notes to the Year End Financial Statements at 31 December 2015

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

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

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 is managed by maintaining the availability of adequate committed funding lines from high quality lenders.

As of December 31, 2015 and December 31, 2014, maturities of gross trade payables and financial liabilities are as follows:

31 December 2015

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 year (III)	Over 5 years (IV)
Non-derivative financial liabilities						
Bank loans	615.277.836	711.794.230	31.898.813	118.599.753	561.295.664	-
Trade payables	165.819.465	166.726.933	166.474.633	252.300	-	-
Expected maturities	Book value	Total expected cash outflow	Less than 3 month	Between 3-12 month	Between 1-5 year	Over 5 years
Non-derivative financial liabilities						
Other payables	36.228.439	36.228.439	36.228.439	-	-	-
Other short-term liabilities	1.978.569	1.978.569	1.978.569	-	-	-
Expected (or maturities per agreement)	Book value	Total expected cash outflow	Less than 3 month	Between 3-12 month	Between 1-5 year	Over 5 years
Derivative financial liabilities (net)						
Derivative cash inflows	55.582.286	55.582.286	55.582.286	-	-	-
Derivative cash outflows	(55.435.650)	(55.435.650)	(55.435.650)	-	-	-

Notes to the Year End Financial Statements at 31 December 2015

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

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

31 December 2014

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 year (III)	Over 5 years (IV)
Non-derivative financial liabilities						
Bank loans	349.514.348	379.331.017	46.772.914	45.676.425	286.881.678	-
Trade payables	81.523.996	82.013.939	81.789.239	224.700	-	-
Expected maturities	Book value	Total expected cash outflow	Less than 3 month	Between 3-12 month	Between 1-5 year	Over 5 years
Non derivative Financial liabilities						
Other payables	16.383.024	16.383.024	16.383.024	-	-	-
Other short-term liabilities	2.025.403	2.025.403	2.025.403	-	-	-
Expected (or maturities per agreement)	Book value	Total expected cash outflow	Less than 3 month	Between 3-12 month	Between 1-5 year	Over 5 years
Derivative financial liabilities (net)	1.726.888	1.726.888	1.726.888	-	-	-
Derivative cash inflows	139.674.568	139.674.568	139.674.568	-	-	-
Derivative cash outflows	(137.947.680)	(137.947.680)	(137.947.680)	-	-	-

Market risk

a) Foreign currency risk and related sensitivity analysis

The Company 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 Company 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.

Notes to the Year End Financial Statements at 31 December 2015

(Amounts expressed in Turkish Lira ("TL") 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 Company in the original currencies;

31 December 2015		TL equivalent (functional currency)	USD	EUR	GBP
1.	Trade receivables	216.351.765	30.436.177	40.200.851	26.347
2a.	Monetary financial assets (including cash, bank accounts)	145.541.867	47.570.674	2.273.765	60
2b.	Non-monetary financial assets	-	-	-	-
3.	Other	1.281	304	125	-
4.	Current assets (1+2+3)	361.894.913	78.007.155	42.474.741	26.407
5.	Trade receivables	99.220.390	-	31.224.946	-
6a.	Monetary financial assets	188.278.141	64.753.797	-	-
6b.	Non-monetary financial assets	-	-	-	-
7.	Other	55.100	-	17.340	-
8.	Non-current assets (5+6+7)	287.553.631	64.753.797	31.242.286	-
9.	Total assets(4+8)	649.448.544	142.760.952	73.717.027	26.407
10.	Trade payables	(68.719.333)	(16.392.611)	(4.554.888)	(1.530.580)
11.	Financial liabilities	-	-	-	-
12a.	Monetary other liabilities	(335.308.086)	(114.658.757)	(567.734)	(28.426)
12b.	Non-monetary other liabilities	(21.830.112)	-	(6.870.000)	-
13.	Current liabilities (10+11+12)	(425.857.531)	(131.051.368)	(11.992.622)	(1.559.006)
14.	Trade payables	-	-	-	-
15.	Financial liabilities	(158.609.314)	-	(49.914.814)	-
16a.	Monetary other liabilities	-	-	-	-
16b.	Non-monetary other liabilities	(28.312.416)	-	(8.910.000)	-
17.	Non-current liabilities (14+15+16)	(186.921.730)	-	(58.824.814)	-
18.	Total liabilities (13+17)	(612.779.261)	(131.051.368)	(70.817.436)	(1.559.006)
19.	Net asset/(liability) position of off-balance sheet derivative instruments(19a-19b)	(31.351.414)	(9.176.250)	(3.500.000)	1.500.000
19a.	Hedged total assets amount	17.568.986	3.823.750	-	1.500.000
19b.	Hedged total liabilities amount	(48.920.400)	(13.000.000)	(3.500.000)	-
20.	Net foreign currency asset/(liability) position (9+18+19)	5.317.869	2.533.334	(600.409)	(32.599)
21.	Net foreign currency asset/(liability) position of monetary items (=1+2a+5+6a-10-11-12a-14-15-16a)	86.755.430	11.709.280	18.662.126	(1.532.599)
22.	Total fair value of financial instruments used for foreign currency hedging	(31.351.415)	(9.176.250)	(3.500.000)	1.500.000
23.	Export	419.042.792	83.211.052	59.107.422	64.966
24.	Import	476.994.960	89.522.971	66.401.085	6.911.697

Notes to the Year End Financial Statements at 31 December 2015

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

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

31 December 2014		TL equivalent (functional currency)	USD	EUR	GBP
1.	Trade receivables	157.673.175	1.490.821	53.636.019	813.379
2a.	Monetary financial assets (including cash, bank accounts)	78.275.263	32.100.834	1.359.816	280
2b.	Non-monetary financial assets	-	-	-	-
3.	Other	26.552	4.304	5.875	-
4.	Current assets (1+2+3)	235.974.990	33.595.959	55.001.710	813.659
5.	Trade receivables	140.250.969	-	49.722.044	-
6a.	Monetary financial assets	129.854.389	55.998.270	-	-
6b.	Non-monetary financial assets	-	-	-	-
7.	Other	93.433	19.200	17.340	-
8.	Non-current assets (5+6+7)	270.198.791	56.017.470	49.739.384	-
9.	Total assets(4+8)	506.173.781	89.613.429	104.741.094	813.659
10.	Trade payables	(19.937.556)	(3.702.607)	(3.638.931)	(302.341)
11.	Financial liabilities	(72.767.284)	-	(25.797.598)	-
12a.	Monetary other liabilities	(303.024.062)	(129.627.109)	(862.112)	-
12b.	Non-monetary other liabilities	(19.854.068)	-	(7.038.702)	-
13.	Current liabilities (10+11+12)	(415.582.970)	(133.329.716)	(37.337.343)	(302.341)
14.	Trade payables	-	-	-	-
15.	Financial liabilities	(43.052.830)	-	(15.263.173)	-
16a.	Monetary other liabilities	-	-	-	-
16b.	Non-monetary other liabilities	(44.510.646)	-	(15.780.000)	-
17.	Non-current liabilities (14+15+16)	(87.563.476)	-	(31.043.173)	-
18.	Total liabilities (13+17)	(503.146.446)	(133.329.716)	(68.380.516)	(302.341)
19.	Net asset/(liability) position of off-balance sheet derivative instruments(19a-19b)	(5.501.182)	45.234.300	(38.500.000)	(500.000)
19a.	Hedged total assets amount	104.893.818	45.234.300	-	-
19b.	Hedged total liabilities amount	(110.395.000)	-	(38.500.000)	(500.000)
20.	Net foreign currency asset/(liability) position (9+18+19)	(2.473.847)	1.518.013	(2.139.422)	11.318
21.	Net foreign currency asset/(liability) position of monetary items (=1+2a+5+6a-10-11-12a-14-15-16a)	67.272.064	(43.739.791)	59.156.065	511.318
22.	Total fair value of financial instruments used for foreign currency hedging	1.726.888	45.234.300	(38.500.000)	(500.000)
23.	Export	237.407.431	53.727.121	43.704.487	932.582
24.	Import	333.953.059	85.651.432	47.240.105	2.416.799

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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 Company's income before tax as of 31 December 2015 and 2014:

		Profit before tax	Profit before tax
		Appreciation of	Depreciation of
		foreign currency	foreign currency
31 December 2015			
<i>In case 10% appreciation of USD against TL:</i>			
1-	USD net asset/liability	736.593	(736.593)
2-	Amount hedged for USD risk (-)	-	-
3-	USD net effect (1+2)	736.593	(736.593)
<i>In case 10% appreciation of EUR against TL:</i>			
4-	EUR net asset/liability	(190.786)	190.786
5-	Amount hedged for EUR risk (-)	-	-
6-	EUR net effect (4+5)	(190.786)	190.786
<i>In case 10% appreciation of GBP against TL:</i>			
7-	GBP net asset/liability	(14.020)	14.020
8-	Amount hedged for GBP risk (-)	-	-
9-	GBP net effect (7+8)	(14.020)	14.020
Total (3+6+9)		531.787	(531.787)
		Profit before tax	Profit before tax
		Appreciation of	Depreciation of
		foreign currency	foreign currency
31 December 2014			
<i>In case 10% appreciation of USD against TL:</i>			
1-	USD net asset/liability	352.012	(352.012)
2-	Amount hedged for USD risk (-)	-	-
3-	USD net effect (1+2)	352.012	(352.012)
<i>In case 10% appreciation of EUR against TL:</i>			
4-	EUR net asset/liability	(603.467)	603.467
5-	Amount hedged for EUR risk (-)	-	-
6-	EUR net effect (4+5)	(603.467)	603.467
<i>In case 10% appreciation of GBP against TL:</i>			
7-	GBP net asset/liability	4.070	(4.070)
8-	Amount hedged for GBP risk (-)	-	-
9-	GBP net effect (7+8)	4.070	(4.070)
Total (3+6+9)		(247.385)	247.385

Otokar Otomotiv ve Savunma Sanayi Anonim Şirketi

Notes to the Year End Financial Statements at 31 December 2015

(Amounts expressed in Turkish Lira ("TL") 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 Company has no significant interest-bearing assets, the Company's income and operating cash flows are not substantially subject to changes in market interest rates.

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

As of December 31, 2015 and 2014, the financial liabilities of the Company 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 debt divided by total capital. Net financial debt is calculated as total borrowings (including borrowings as shown in balance sheet) less cash and cash equivalents.

	31 December 2015	31 December 2014
Total financial debt	615.277.836	349.514.348
Less: Cash and cash equivalents (Note 4)	(58.736.065)	(44.527.697)
Net financial debt	556.541.771	304.986.651
Total equity	245.239.099	244.327.376
Financial debt/shareholders' equity factor	%227	%125

Otokar Otomotiv ve Savunma Sanayi Anonim Şirketi

Notes to the Year End Financial Statements at 31 December 2015

(Amounts expressed in Turkish Lira ("TL") 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 Company's assets that are measured at fair value at December 31, 2015 and 2014:

31 December 2015

Assets	Level 1	Level 2	Level 3	Total
Derivative financial instruments	-	146.636	-	146.636
Total	-	146.636	-	146.636

31 December 2014

Assets	Level 1	Level 2	Level 3	Total
Derivative financial instruments	-	1.726.888	-	1.726.888
Total	-	1.726.888	-	1.726.888

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 Company 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 Company could realize in a current market exchange.

Company 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.

NOT 31 - OTHER MATTERS WHICH ARE SIGNIFICANT TO THE FINANCIAL STATEMENTS OR WHICH SHOULD BE DISCLOSED FOR THE PURPOSE OF TRUE AND FAIR INTERPRETATION OF THE FINANCIAL STATEMENTS

None.

INFORMATION DOCUMENT CONCERNING THE GENERAL ASSEMBLY TO CONVENE ON MARCH 28, 2016 TO REVIEW 2015

1. INVITATION TO THE ORDINARY GENERAL ASSEMBLY ON MARCH 28, 2016

The Ordinary General Assembly will convene to review the activities of the Company and to discuss the agenda detailed below on Monday, March 28, 2015, at the Divan Istanbul Hotel, Asker Ocağı Cad. No: 1, Elmadağ, Şişli, İstanbul (Phone:+90 212 315 55 00) at 3:00 pm.

The Financial Statements, Independent Auditor's Report, the Board of Director's Profit Distribution Proposal, Annual Report and the attached Corporate Governance Compliance Report, as well as the agenda items below and the Information Notes on work required to ensure compliance with the Capital Market Board's regulations, all of which pertain to the 2015 fiscal year will be made for the shareholders to review at the Company's Headquarters, on the corporate website at www.otokar.com.tr, and EGKS (Electronic General Assembly System) of the Central Registry Agency three weeks prior to the Ordinary General Assembly within the legal duration.

Providing that the rights and obligations of those shareholders who are unable to attend the meeting personally but will attend the meeting through the electronic system are reserved, the shareholders are required to execute their proxies in compliance with the form posted on our website or obtain the form of proxy from Yapı Kredi Yatırım Menkul Değerler A.Ş. (Yapı Kredi Plaza, Levent, İstanbul), from the offices of the Company or from the Company's website at www.otokar.com.tr and, by fulfilling the requirements set forth in "Voting by Proxy and Collection of Proxies via Invitation Communiqué" numbered II-30.1 as published in the Official Gazette number 28861 dated 24.12.2013 and entered into effect thereof, present their proxies, the signature on which having been certified by a public notary, to the Company. Proxies who have been appointed electronically via the Electronic General Assembly System are not required to present a form of proxy. Proxies that do not comply with the proxy mandated by the Communiqué and the attached sample will not be accepted under any circumstances, due to our legal obligations.

Those shareholders who wish to cast their votes via the Electronic General Assembly System are kindly requested to obtain information from the Central Registry Agency, the Company's website at www.otokar.com.tr or the Company's Headquarters (phone: 0216 229 22 44) to be able to fulfil their obligations in compliance with relevant Regulations and Communiqués.

Pursuant to the paragraph 4 of article 415 of the new Turkish Commercial Code No. 6102 and the first paragraph of article 30 of the Capital Markets Law, the right to attend and cast votes at the Ordinary General Assembly is not dependent on the condition of depositing the share certificates. Therefore, the shareholders who wish to attend the Ordinary General Assembly are not required to block their shares.

Providing that the provisions concerning the casting of votes via an electronic medium for voting on the Agenda Topics in Ordinary General Assemblies are reserved, the method of open voting by a show of hands will be applied.

All stakeholders as well as representatives of the press and the media are invited to our Ordinary General Assembly.

In accordance with the provisions of the Capital Market Law, there will be no notice by registered letter to shareholders for registered shares that are listed in stock market.

Respectfully submitted for the attention of Shareholders.

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ A.Ş. BOARD OF DIRECTORS

Company Headquarters: Aydınevler Mahallesi, Dumlupınar Cad. No:58/A Blok Küçükalyalı - İstanbul

Trade Registry and Number: İstanbul – 83467

INFORMATION DOCUMENT CONCERNING THE GENERAL ASSEMBLY TO CONVENE ON MARCH 28, 2016 TO REVIEW 2015

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 that entered into force on January 3, 2014 and which are related to agenda topics, are provided below the following agenda topics, and other mandatory general disclosures are presented for your attention 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	10,722,749,809	44.68
Ünver Holding A.Ş.	5,954,943.83	24.81	5,954,943,830	24.81
Temel Ticaret ve Yatırım A.Ş.	647,274.75	2.70	647,274,750	2.70
Ford Otomotiv Sanayi A.Ş.	140,599.17	0.59	140,599,174	0.59
Mustafa Rahmi Koç	1,171.66	0.00	1,171,660	0.00
Free Float	6,533,260.78	27.22	6,533,260,777	27.22
Total	24,000,000.00	100,00%	24,000,000,000	100,00%

2.2. Changes in the Management or Activities of the Company that may Materially Affect the Activities of the Company:

Information on changes in the management or activities that have occurred in the previous accounting period of our corporation 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 2014. Significant changes in management and activities are planned for upcoming accounting periods.

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 Unit 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 2015 activities will be discussed.

INFORMATION DOCUMENT CONCERNING THE GENERAL ASSEMBLY TO CONVENE ON MARCH 28, 2016 TO REVIEW 2015

3. OUR REMARKS ON THE AGENDA TOPICS OF THE ORDINARY GENERAL ASSEMBLY ON MARCH 28, 2016

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 2015 Annual Report of the Company as prepared by the Board of Directors

Information on the 2015 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 2015 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 2015 fiscal year

Information concerning the Independent Auditor's Report prepared pursuant to the regulations of the Capital Markets Board and the TCC, which were made available to the 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 will be presented to the General Assembly.

4. Presentation for discussion and approval of the Financial Statements of the Company for the 2015 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 by and approval of the shareholders.

5. Release of each member of the Board of Directors from liability for the affairs of the Company in 2015

Release of the members of the Board of Directors in respect of the activities, transactions and accounts in 2015 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 01.01.2015-31.12.2015 prepared in compliance with the International Financial Reporting Standards in accordance with the provisions of Turkish Commercial Code and Capital

INFORMATION DOCUMENT CONCERNING THE GENERAL ASSEMBLY TO CONVENE ON MARCH 28, 2016 TO REVIEW 2015

Market Law, and audited by Başaran Nas Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş. (A Member of PricewaterhouseCoopers), the Company has earned a “Non-Consolidated Net Profit in the Period” amounting to TL 79,506,151. 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 on 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 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 nine 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, İsmet Böcügöz, Abdulkadir Öncül and Ahmet Nezih Olcay were nominated by the Board of Directors as Independent Members of the Board of Directors.

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. The remuneration policy prepared for this purpose is provided in ATTACHMENT/3. As stated in note 27 of the financial statements for the 2015 fiscal year, benefits amounting to a total of TL 10,900,000 were provided to the senior management by Otokar Otomotiv ve Savunma San. A.Ş. during 2015.

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 2016 fiscal year in accordance with the Remuneration Policy as presented to the approval of the shareholders in line with agenda topic 8 will be determined by the shareholders.

INFORMATION DOCUMENT CONCERNING THE GENERAL ASSEMBLY TO CONVENE ON MARCH 28, 2016 TO REVIEW 2015

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 February 26, 2015, the Board of Directors resolved to appoint, in consultation with the Committee in charge of Audits, Başaran Nas Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş. (A Member of PricewaterhouseCoopers) to audit the financial statements of the Company pertaining to the 2016 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 2015, and resolution of an upper limit for donations to be made in 2016

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 2015 amounted to TL 1,966,700. The upper limit of the donations to be made in 2016 will be determined by the General Assembly.

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 2015 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 corporation or its subsidiaries or enter another partnership that has the same commercial business as unlimited partner, the said transactions will be presented to the General Assembly under a separate agenda topic, and recorded in minutes of the Ordinary General Assembly.

The necessary authorization will be presented to the General Assembly for the approval of our shareholders, who will also be informed that no such transactions were made within the year.

13. Wishes and opinions

ATTACHMENTS:

- ATTACHMENT/1** Profit Distribution Policy and Profit Distribution Table pertaining to Distribution of the 2015 Profits (Pages 60-61)
- ATTACHMENT/2** Resumes of the Candidates for the Board of Directors and the Declarations of Independence of the Independent Member Candidates (Pages 52-53)
- ATTACHMENT/3** Remuneration Policy for Members of the Board of Directors and Senior Management (Page 54)

GLOSSARY

APV Armoured Patrol Vehicle

CBRN Chemical, Biological, Radiological and Nuclear

CMB Capital Markets Board

EBITDA Earnings Before Interest, Taxes, Depreciation and Amortization

EMC Electromagnetic Compatibility

EMI Electromagnetic Interference

EURO 5 Euro Emission Standard (Max. Sulphur 10ppm)

İETT Istanbul Electricity Tram and Tunnel Enterprises

Liquidity The level of ease and speed with which assets can be converted into cash

R&D Research and Development is a general term for innovative and creative activities carried out systematically to improve knowledge base, and the use of such information to create new applications.

Semi-trailer Although equipped with an axle, wheels, brakes, ABS, etc. moving groups and safety devices, semi-trailers do not have engines.

TCC Turkish Commercial Code

Trailer Trailer is a land vehicle towed by a powered vehicle, and designed to suit the properties of the goods to be transported. Trailers are equipped with minimum one axle and a kingpin hitch to attach to the towing vehicle. Some of the load is handled by the trailer's axle(s), while the rest is carried by the truck that tows the trailer.

TÜRKAK Turkish Accreditation Agency

Otokar Otomotiv ve Savunma Sanayi A.Ş.

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