
From the past
to the future

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From the past to the future

We set off to do the unthinkable, to achieve the impossible. In the journey we embarked on with determination, we successfully paced the roads of more than sixty countries across five continents. Today, we continue to bring our strength of using both our designs and technology from one corner of the world to another. As we take our leadership into the future, we will keep opening new horizons for our users, empowered by evolving technologies.

Otokar

MESSAGE FROM THE CHAIRMAN OF THE BOARD

OTOKAR CONTINUED ITS SUSTAINABLE GROWTH IN 2017, INCREASING ITS TURNOVER BY 9 PERCENT TO REACH TL 1.79 BILLION.



Esteemed shareholders, business partners and employees,

The world economy, which showed significantly low growth in the aftermath of the global crisis in 2008, started to recover in 2017 and performed better compared with previous years. Accelerated growth in developed and emerging countries played an important role in this performance. Commerce started to liven up with growing confidence in the economy both in Turkey and also across the world and Turkish economy began to show better performance than expected in 2017.

Positive developments in the economy have also manifested in the fields where we operate. We are proud and happy to leave behind a successful year when Otokar maintained its leadership in the bus segment and took important steps in the defense

industry. I need to proudly say that Otokar has maintained its sustainable growth in 2017 and reached TL 1.79 billion in turnover with an increase of 9 percent. The share of exports in turnover rose to 31 percent.

The geopolitical developments of the recent years have also increased the needs and desire of emerging countries in particular to own their own technologies in the defense industry. Some of the world's leading armored vehicle markets including United Arab Emirates, Saudi Arabia, Turkey and India are countries that have set goals in this respect. In this light, the most significant development of the year in the defense industry was undoubtedly came from Otokar, which signed Turkey's largest export deal for a single defense item in 2017. Otokar has taken the first step in technology transfer in the defense industry by establishing Al Jasoor company with its local partner

in the United Arab Emirates last year. Al Jasoor signed an agreement worth USD 661 million to meet the 8x8 armored vehicle requirement of the United Arab Emirates Armed Forces, and with this deal Otokar expanded the scope of its export activities with technology transfer.

The movement toward becoming more national and domestic in production continued to gain ground in Turkey with the aim of gaining higher technological competence. Original products with advanced technology have started to serve the Turkish Armed Forces. Last year, Otokar's Cobra II armored vehicle was preferred for border surveillance missions of Turkish Land Forces.

We saw important developments in 2017 regarding the Altay Main Battle Tank, one of the most important elements of the national defense and the biggest land systems project of the defense industry. Qualification and acceptance tests of the prototypes produced within the scope of the project were successfully completed in February 2017. Following the inspection and approval of Technical Data Package (TVP) by the Undersecretariat for Defense Industries, Phase I will be completed. On 16 November 2017, Otokar submitted its serial production offer for the tender that the Undersecretariat for Defense Industries opened. With the most advanced technology and R&D capabilities in land vehicles for defense industry, Otokar is the only national land vehicles manufacturer and the only company able to meet the needs of our Armed Forces for national battle tanks. Otokar is ready to take on the serial production of the national battle tank project, which will contribute significantly to our country's ability to defend against internal and external threats and gain even more power in the region.

Otokar maintains its goal of becoming a global player not only in the defense industry but also in commercial

vehicles and has continued to strengthen its position in the growing European bus market. Otokar's vehicle park reached 2,500 levels in target markets including France, Italy and Spain and rose to 500 levels in the Balkans. In 2017, the company exported its Kent articulated bus to Italy, Serbia and Spain for the first time.

In the domestic market, Otokar retained its title as Turkey's most preferred bus brand. Last year, 1 out of every 3 buses sold in Turkey was Otokar branded. Continuing its claim in the field of logistical vehicles, Otokar increased its light truck sales above market growth, reaching a market share of 11 percent. Otokar aims to maintain its leadership in the Turkish bus market next year as well, with further goals to increase its market share with newly developed products and strengthen its current position in exports. Otokar's commitment to R&D plays an important role in these accomplishments. Otokar allocates an average of 4 percent of its turnover for R&D expenditures every year to meet the needs and expectations of its customers in the best and fastest manner. Having launched many firsts in Turkey, Otokar will continue to work on developing alternative fuelled vehicles and in particular a 12-meter electric bus for inner city transportation.

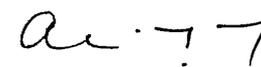
Technological transformation, which includes applications such as Industry 4.0, is also forcing the conventional order and production approach in the world to change. Otokar carries out extensive digital transformation activities to use the right technologies efficiently and effectively during this time of change. These activities will enable us to differentiate our company in terms of both technology and also qualified human resource.

We are focused on operational excellence with a business model based on developing innovative and environmentally friendly products

with fully owned intellectual property rights that completely meet customer expectations and our main objectives are to help our company to grow, improve the life standards of new generations, contribute to establishing peace and security around the world and support national economy as well as community's development. With the adoption of the United Nations Sustainable Development Goals, we have concentrated our activities in this direction. Otokar has also been listed in the BIST Sustainability Index as a result of its endeavors towards sustainable development in 2017 as in previous years. We aim at sustaining this success in the coming years by continuing to work without compromising our development targets centered on environment, people and community.

As we leave behind a successful year when we attained our growth and profitability targets, we anticipate the world economy to continue on its way out of the crisis and an environment in which growth rates will increase. We are confident that Otokar will continue onward to maintain its successful trend and introduce innovations.

I would like to express my heartfelt gratitude to all of our shareholders and customers for their confidence in our company and thank our business partners and employees for their contributions and efforts that bring us success. I hope that 2018 will be a beneficial year for our company, our Group and our country.



Ali Y. Koç
Chairman

ABOUT



Otokar was established in 1963 at a time when industrialisation and modernisation initiatives were being launched in Turkey to produce the first intercity buses of the country. The Company, which started its operations with bus and minibus production, became part of 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 defense industry in 1987, and produced Turkey's first tactical wheeled armored vehicle in the 1990s.

Today, as Turkey's leading manufacturer of commercial vehicles and defense industry products, Otokar produces

buses, light trucks and semitrailers in the commercial vehicles segment, and a variety of tactical wheeled and tracked armored vehicles and turret systems for the defense industry. As the leader and largest private capital company in the defense industry, Otokar maintains its strong position in the sector. A part of the Koç Group, the Company operates at the Sakarya plant, offering its clients tailored solutions with its technologies, designs and applications.

Otokar maintains its title as the best selling bus brand in Turkey with a broad product offering that includes buses ranging from 7 meters to 18.75 meters for passenger transportation.



Having launched Turkey's first hybrid bus and first electric bus, Otokar currently continues to work on alternative-fuelled buses.

In the cargo transportation segment, the Company's operations include a portfolio of semi-trailers and light trucks for the logistics and transportation sector. 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 food transportation. Meanwhile Atlas, a light truck with 8.5-ton provisional 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 defense industry. The Company manufactures tactical wheeled and tracked armored vehicles and turret systems with owned intellectual property rights, and exports defense industry products to more than 30 countries. The main battle tank "Altay", which Otokar as prime 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. With "Altay", a design, development, production and prototyping project, Turkey has not only acquired a main battle tank with owned intellectual property rights, but also gained the infrastructure to design and manufacture the most complicated land vehicle.

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

Otokar, which has made its mark with numerous firsts since its establishment, also stands apart with world-class R&D activities. The company has allocated approximately 4% of its revenues for R&D expenditures in the last decade.

Vision

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

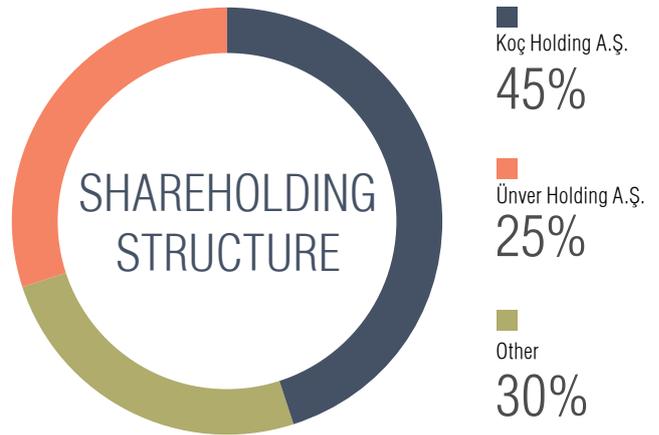
Mission

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

OTOKAR IN NUMBERS

FOUNDED IN 1963

100% LOCAL CAPITAL



A GLOBAL COMPANY

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

THE LARGEST

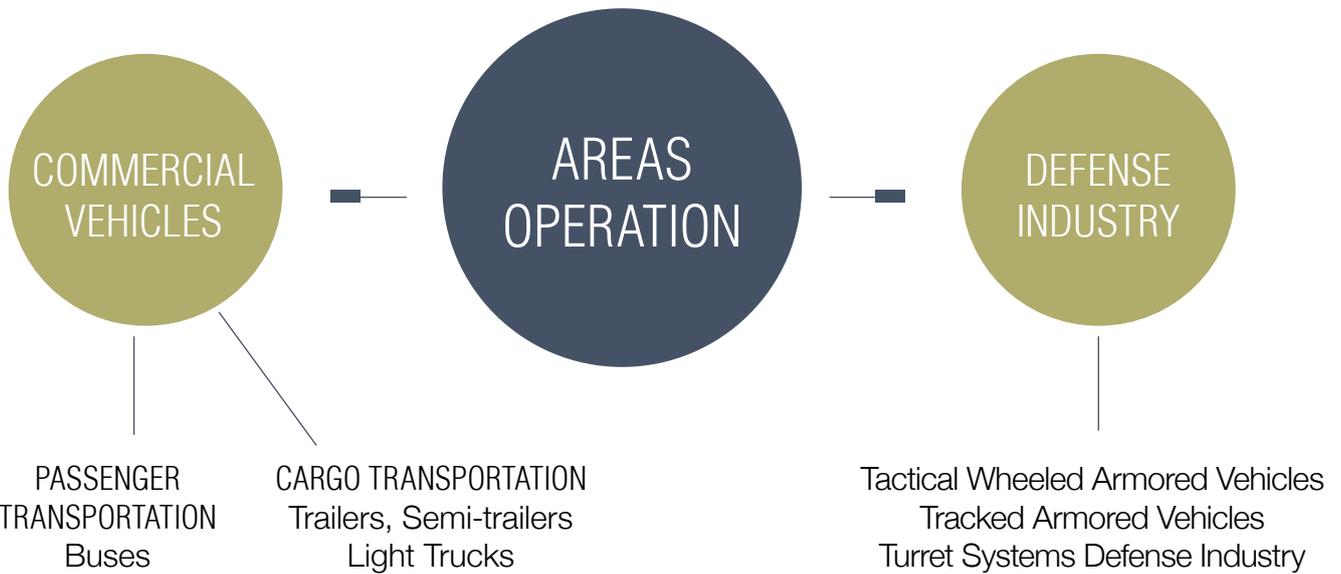
Turkey's largest private company in the defense industry

PIONEER

Leading supplier of land defense systems to Turkish Armed Forces

MARKET LEADER

Most preferred bus brand in the 25+ capacity passenger transportation segment in Turkey



2,147
EMPLOYEES

552,000 M²
PRODUCTION AREA

APPROX. 300
SALES & SERVICE NETWORK

COMPETITIVE ADVANTAGES

PRODUCTS WITH OTOKAR OWNED INTELLECTUAL PROPERTY RIGHTS

Independence to develop products to meet market requirements

PUBLICLY TRADED

Transparent structure, reliability

R&D CAPABILITIES AND FLEXIBLE PRODUCTION ABILITY

Rapid product development and launch

OPERATING IN NICHE MARKETS

Sustainable growth

CAPABILITY TO OFFER CUSTOMIZED FEATURES

Customer satisfaction guarantee

NATIONAL COMPANY

Advantage in national projects

USD 149 MILLION
2017 EXPORT REVENUES

TL 1,8 BILLION
2017 TURNOVER IN 2017

TL 483 MILLION
10-YEAR R&D EXPENDITURE

PRODUCTION CAPACITY

5,000
BUSES +
MINIBUSES

1,850
TRAILERS +
SEMI-TRAILERS

1,600
TRUCKS +
LIGHT TRUCKS

3,700
TACTICAL
VEHICLES

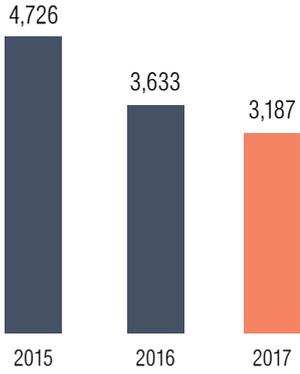
900
TACTICAL ARMORED
VEHICLES

1 OUT OF EVERY 3 BUSES SOLD IN TURKEY IN 2017 IS OTOKAR

SUMMARY FINANCIAL INFORMATION

Sales Quantities

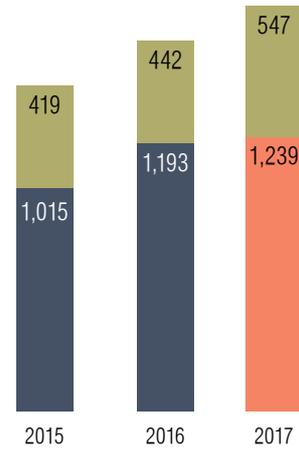
unit



Sales Revenues

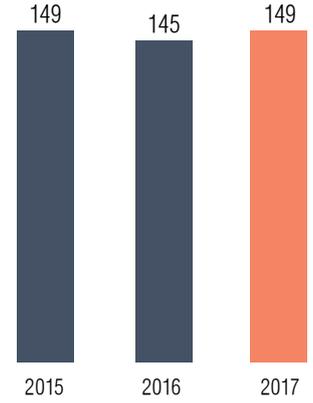
TL million

■ Domestic ■ Exports



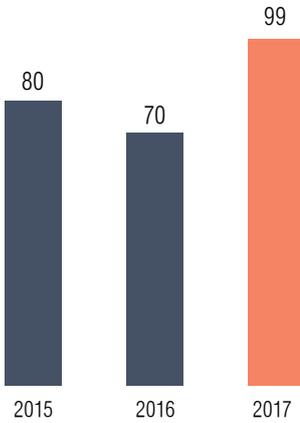
Export Revenues

USD million



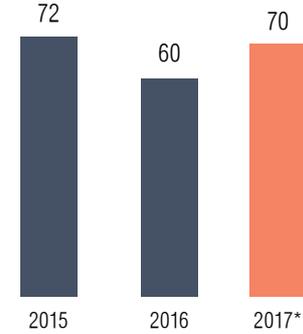
Net Profit

TL million



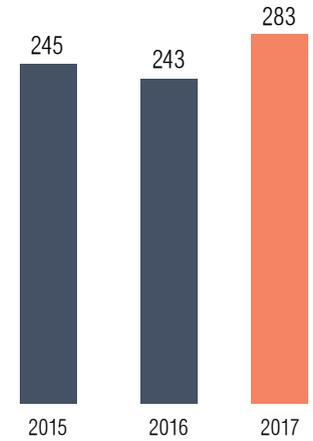
Dividends Paid

TL million



Shareholders' Equity

TL million



* Dividend proposal will be presented to the General Assembly for approval in March 2018.

Stock Performance

Otokar Otomotiv ve Savunma Sanayi A.Ş. shares have been traded on Borsa Istanbul since 24 April 1995 with ticker symbol "OTKAR" while the Company stocks are also included in the BIST30, Corporate Governance and Sustainability Indexes. The shares have seen lowest TL 98.50 and highest TL 145.55 in 2017. As a result of the evaluations by BIST, the company will continue to be included in the BIST sustainability Index in 2018.



MAIN RATIOS (%)

	2016	2017
Gross Profit Margin	25.1	26.4
Operating Margin	10.1	12.6
Pre-Tax Profit Margin	4.2	5.1
Net Margin	4.3	5.6

FINANCIAL RATIOS

Liquidity Ratios	2016	2017
Current Ratio (Current Assets/Short Term Liabilities)	1.36	1.52
Liquidity Ratio (Current Assets-Inventories/Short Term Liabilities)	0.90	1.14
Financial Leverage Ratios	2016	2017
Total Debt to Total Assets Ratio (Short Term Debt + Long Term Debt/Total Assets)	0.86	0.86
Equity/Total Debt Equity/(Short Term Debt + Long Term Debt)	0.16	0.16
Profitability Ratios	2016	2017
Sales Profitability Ratio (Pre-Tax Profit/Net Sales)	0.04	0.05
Return on Assets (Pre-Tax Profit/Total Assets)	0.04	0.05
Return on Equity (Net Profit/Shareholders' Equity)	0.29	0.35

R&D INDICATORS

4%

SHARE OF 10-YEAR
R&D EXPENDITURES
IN TURNOVER

TL 483 MILLION

TOTAL R&D
EXPENDITURE IN THE
LAST DECADE

269

PATENTS AND
INDUSTRIAL DESIGNS
OWNED

97%

SHARE OF OTOKAR-
DESIGNED VEHICLE
SALES IN TURNOVER

PRODUCTIVITY INDICATORS

1,647

PROPOSALS SUBMITTED BY
EMPLOYEES IN 2017 FOR PRODUCTIVITY
IMPROVEMENT PROJECTS

23%

CAPACITY
UTILIZATION
RATE

14%

10-YEAR
AVERAGE
GROWTH

TL 98 MILLION

ECONOMIC
CONTRIBUTION

CORPORATE GOVERNANCE RATING SCORE **9.33**

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 meters with varying passenger capacities suitable for urban, intercity and tourism transportation.
- Exporting buses to more than 60 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-ton weight capacity under license, since 2013.

DEFENSE INDUSTRY



DEFENSE INDUSTRY

- The leading supplier of land defense systems as Turkey's largest private capital defense industry company.
- More than 30,000 vehicles are actively used both in Turkey and also in over 30 allied and friendly countries across five continents 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 defense 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

Poyraz

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

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

Ulyso

Kent (Kent LF, Kent DG, Kent U, Kent C)

Kent Articulated

Territo

MARKET POSITION AND DEVELOPMENTS IN 2017

- Maintained leadership in the Turkish bus market.
- Otokar's new inner city bus Sultan LF added to the product range.
- Ulyso is introduced to the European market.
- Sultan S, Comfort, Maxi and Mega vehicles are relaunched.
- Kent Articulated Buses exported to Italy, Serbia and Spain as a first.

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, Iceliner Huck-a-Pack Semi-Trailer)

Otokar-Fruehauf ADR-certified tanker semi-trailer and on-truck applications (Cylindrical, elliptical, maxi section)

Ecotir, Ecoliner, Plato, Duet, Kontena, Spira

- More focus on dangerous goods and perishable food transportation solutions, which require expertise in trailer production.
- Otokar's light truck Atlas introduced to the market with a new Euro 6 engine.

LIGHT TRUCKS

Atlas Long Wheelbase, Atlas Short Wheelbase

TACTICAL WHEELED VEHICLES

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

6x6 Tactical Wheeled Armored Vehicle (Arma 6x6)

8x8 Tactical Wheeled Armored Vehicle (Arma 8x8)

TRACKED ARMORED VEHICLES

Light Tracked Armored Vehicle (Tulpar, Tulpar S)

Main Battle Tank (Altay)

TURRET SYSTEMS

Mızrak, Keskin, Open Turrets,

Internal Security Turret, Üçok, Bozok, Başok

- Al Jasoor, the joint venture company established by Otokar and Tawazun, a leading investment company in the United Arab Emirates (UAE), was awarded the contract for amphibious 8x8 armored vehicles, signing the highest export deal for a single defense item of Turkey.
- The qualification and acceptance tests of the prototypes produced in the first phase of Altay were successfully completed, and prototypes approved in February 2017. The inspection and approval process of the Technical Data Package (TDP) by the Undersecretariat for Defense Industries currently continues.
- A tender for serial production was opened in 2017, and Otokar submitted its first offer on 16 November 2017 and final offer on 8 February 2018.
- Altay-AHT Urban Operations Tank, a version developed from the main battle tank Altay for asymmetric combat conditions, was unveiled for the first time at IDEF.

MILESTONES

1960s

1963

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

1964

Produced Turkey's first intercity buses under Magirus license.

1967

Produced and exported first small buses.

1968

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

1970s

1970

Produced first minibuses designed for mass transport.

1976

Joined the Koç Group.

1980s

1980

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

1984

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

1987

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

1990s

1990

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

1995

Otokar IPO.

1997

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

1999

Otokar Pazarlama A.Ş. acquired.

2000s

2002

Merged with Istanbul Fruehauf A.Ş.

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

2003

Produced Turkey's first ADR-certified tanker.

2004

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

2005

Armored internal security vehicle added to product range.

Designed and produced Otokar branded 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 meters.

2009

Mine-resistant armored vehicle "Kaya" and 12-meter 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 armored vehicle, added to the product range, and received two export orders in the first year.

2011

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

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

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

Otokar subsidiary, Otokar Europe founded in France.

2012

Otokar Tank Test Center opened.

Turkey's first electric bus launched.

Production of preliminary prototypes of the national tank Altay.

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

2013

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

2014

Became best selling bust brand of Turkey for the fifth time.

ISO 10002 certification for customer satisfaction.

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

Otokar Electromagnetic Compatibility Test Center accredited.

2015

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

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

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

Awarded OHSAS 18001 certification for occupational health and safety.

Included in the BIST Sustainability Index.

Became leader in small bus exports.

2016

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

Otokar established Otokar Land Systems Limited in the United Arab Emirates.

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

Otokar developed the Smart Bus application in cooperation with İSBAK and KoçSistem as part of the CoMoSeF Project.

Completed delivery of 100 articulated buses to ESHOT of Izmir Metropolitan Municipality under the contract awarded the previous year.

Otokar R&D Test Center Climatic Chambre was selected as the first and only approved test station in Turkey for ATP-type approval tests of vehicle superstructures. Huckepack, the first refrigerated trailer - produced and certified in Turkey - conforming to railroad shipments in Code XL load safety standards, was added to product portfolio.

Became Turkey's most preferred refrigerated semi-trailer brand.

2017

Al Jasoor, the joint venture company established by Otokar and Tawazun, a leading investment company in the United Arab Emirates (UAE), was awarded the contract for amphibious 8x8 armored vehicles, signing the highest export deal for a single defense item of Turkey.

The qualification and acceptance tests of Altay prototypes were successfully completed, and prototypes approved in February 2017.

Otokar submitted its first offer for serial production of Altay on 16 November 2017 and final offer on 8 February 2018.

Altay-AHT Urban Operations Tank was unveiled at IDEF.

Became leader in the Turkish bus market.

Sultan S, Comfort, Maxi and Mega (Navigo buses) facelifted.

The new inner city bus Sultan LF was added to the product range.

Ulyso was introduced to the European market.

The first Kent Articulated buses were exported.

The company has shifted its focus to Industry 4.0, also called the fourth industrial revolution, and launched activities in that direction.

CoMoSeF project won the 2017 Innovation Award at an event in Barcelona.

HIGHLIGHTS OF 2017

AL JASOOR, THE JOINT VENTURE COMPANY ESTABLISHED BY OTOKAR AND TAWAZUN'S HEAVY VEHICLES INDUSTRY, WAS AWARDED THE CONTRACT FOR AMPHIBIOUS 8X8 ARMORED VEHICLES FOR THE UNITED ARAB EMIRATES ARMED FORCES.



ALTAY PROTOTYPES WERE SUCCESSFULLY ACCEPTED AND APPROVED.

THE OFFER FOR SERIAL PRODUCTION OF MAIN BATTLE TANK ALTAY WAS SUBMITTED TO THE UNDERSECRETARIAT FOR DEFENSE INDUSTRIES.



ALTAY-AHT URBAN OPERATIONS TANK WAS UNVEILED AT IDEF.

LISTED AMONG THE 44 COMPANIES TO BE INCLUDED IN THE BORSA ISTANBUL SUSTAINABILITY INDEX WITH ITS SUCCESSFUL ACTIVITIES IN THE FIELD OF SUSTAINABILITY.



BECAME A SIGNATORY OF THE UN WOMEN'S EMPOWERMENT PRINCIPLES (WEPS).

ADDED SULTAN LF TO PRODUCT RANGE TO BRING A FRESH BREATH OF AIR TO INNER CITY TRANSPORTATION.

COMOSEF PROJECT WON THE 2017 INNOVATION AWARD AT THE CELTIC-PLUS AWARDS IN BARCELONA.



WON FIRST PRIZE WITH THE “OUR BORDERS ARE OURS TO PROTECT” PROJECT IN THE “CREATIVE INNOVATORS” CATEGORY OF THE “MOST SUCCESSFUL KOÇ EMPLOYEES” COMPETITION.

NEW PERSONNEL SHUTTLE AND TOURISM BUS POYRAZ IS ADDED TO THE PRODUCTION PORTFOLIO.



OTOKAR DELIVERED THE LARGEST FLEET OF THE YEAR WITH 110 SULTAN LF BUSES.

ULYSO IS LAUNCHED TO EUROPEAN BUS MARKET.



OTOKAR WAS DEEMED WORTHY OF THE GOLDEN GLOVE AND GOLDEN SUGGESTION AWARDS AT THE MESS GOLDEN GLOVE AND GOLDEN SUGGESTION COMPETITION

WON THE BEST MOBILITY PROJECT: DIGITAL QUALITY AWARD AT A CEREMONY DURING IDC SMART MANUFACTURING CONFERENCE.



ATLAS, WITH ITS PAYLOAD,
POWERFUL FEATURES, LOW
OPERATING COSTS, AND
ENVIRONMENTALLY FRIENDLY
AND EFFICIENT ENGINE,
REACHED A WIDER RANGE OF
USERS IN 2017.



GENERAL ASSEMBLY MEETING AGENDA

Agenda of The Annual General Assembly Meeting of Otokar Otomotiv ve Savunma Sanayi A.Ş. on 15 March 2018

1. Opening and election of the Chairmanship Committee
2. Presentation for discussion and approval of the Annual Report of the Company for the year 2017 as prepared by the Board of Directors
3. Presentation of the summary of the Independent Audit Report for the 2017 fiscal year
4. Presentation for discussion and approval of the Financial Statements of the Company for the 2017 fiscal year
5. Release of each member of the Board of Directors from liability for the affairs of the Company in 2017
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 2017, and resolution of an upper limit for donations to be made in 2018
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 2017 pursuant to the Corporate Governance Communiqué of the Capital Markets Board
13. Wishes and opinions

GENERAL ASSEMBLY

INDEPENDENT AUDITOR'S REPORT ON THE BOARD OF DIRECTORS' ANNUAL REPORT



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

1. Opinion

We have audited the annual report of Otokar Otomotiv ve Savunma Sanayi A.Ş. (the "Company") and its subsidiaries (collectively referred to as the "Group") for the 1 January - 31 December 2017 period.

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

2. Basis of Opinion

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

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

We expressed an unqualified opinion in the auditor's report dated 2 February 2018 on the full set consolidated financial statements for the 1 January - 31 December 2017 period.

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

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

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

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

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

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

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

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

Beste Gücüm, SMMM
Partner

Istanbul, 21 February 2018

GENERAL ASSEMBLY

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ A.Ş.

BOARD OF DIRECTORS' REPORT FOR THE PERIOD 1 JANUARY 2017 - 31 DECEMBER 2017

The consolidated financial statements of our Company reflecting the 2017 activities and their results, prepared in accordance with the Turkish Accounting Standards/Turkish Financial Reporting Standards ("TAS/IFRS") introduced by the Public Oversight, Accounting and Auditing Standards Authority ("POA") of Turkey and their annexes and interpretations pursuant to the provisions of the Capital Markets Board ("CMB") Communiqué II-14.1 on the Principles of Financial Reporting in Capital Markets ("Communiqué"), are presented to our shareholders and the public.

The members of the Board of Directors appointed at the Ordinary General Assembly Meeting on 24.03.2017 and served the Board during the reporting period are shown below.

Board Members	
Name & Lastname	Title
Yıldırım Ali KOÇ	Chairman
Halil İbrahim ÜNVER	Vice Chairman
Osman Turgay DURAK	Member
Levent ÇAKIROĞLU	Member
Kudret ÖNEN	Member
Ahmet Serdar GÖRGÜÇ	Member - General Manager
İsmet BÖCÜGÖZ	Independent Member
Abdülkadir ÖNCÜL	Independent Member
Ahmet Nezih OLCAY	Independent Member

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

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

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

GENERAL ASSEMBLY

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ A.Ş.

BOARD OF DIRECTORS' REPORT FOR THE PERIOD 1 JANUARY 2017 - 31 DECEMBER 2017

Partnership and Capital Structure

As of 31 December 2017, our Company's registered capital ceiling is TL 100 million, and the issued capital is TL 24 million.

Following is a list showing shareholders with more than 10% of the Company capital, their shares, and their ratio in our capital:

Shareholder Title	Share Amount (TL)	Share (%)
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 balance representing 30.51% of our capital consists of shares with a nominal value of TL 7,322,306, other shareholders and publicly held shares.

Our Company has a subsidiary, "Otokar Europe SAS," established and registered in France on 18 August 2011, to organize export activities and increase our sales abroad with 100% ownership of the fully paid up capital of € 100,000 (TL 239,280). Otokar Europe SAS is subject to consolidation as of the current year because its activities reached a considerable size in our Company's financial statements. As of 31 December 2017, our Company prepared financial statements in a consolidated format. Also, the Company completed establishment procedures of "Otokar Land Systems LLC," established in the United Arab Emirates with a capital of AED 50,000 (TL 41,398) in line with the resolutions adopted by the Board of Directors on 13 April 2016, to organize export activities and increase sales abroad, especially in these regions. Otokar Land Systems LLC is followed under the section "Financial investments" in the financial statements as it did not start its financial activities.

Amendments to the Articles of Association:

Amendments to the Articles of Association made at the Ordinary General Assembly Meeting on 24 March 2017 are as follows:

In the Articles of Association of the Company, Article 5 "Company Head Office and Branches" and Article 7 "Registered Capital" have been amended.

Amendments to the Articles of Association were registered on 14 April 2017 and published in the Turkish Trade Registry Gazette no. 9310 on 20 April 2017.

Dividends Distributed in the Last Three Years and their Ratios:

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

Period	%
2014	333.33
2015	300.00
2016	250.00

The Company made cash payments regarding all the 2016 accounting period dividends to its shareholders on 31 March 2017.

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

GENERAL ASSEMBLY

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ A.Ş.

BOARD OF DIRECTORS' REPORT FOR THE PERIOD 1 JANUARY 2017 - 31 DECEMBER 2017

AUTOMOTIVE INDUSTRY AND OTOKAR

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

Within the scope of the "Modern Tank Production Project using National Sources" signed on 29 July 2008 between Otokar and the Undersecretariat for Defense Industries, System Qualification and Acceptance Tests, which form the last step in Phase I Turkish Main Battle Tank Design and Prototype Production Main Agreement, were successfully completed, and prototypes approved in February 2017. Meanwhile, the inspection and approval process of the Technical Data Package (TDP) by the Undersecretariat for Defense Industries continues. The Undersecretariat for Defense Industries released the call to bid document for the serial production of Altay and invited Otokar to submit an offer. The Company obtained the Call to Bid file (CBF) on 31 July 2017 and submitted its first offer on 16 November 2017, followed by its Best and Final Offer (BAFO) on 8 February 2018.

In the material disclosures we have provided during the year, we had announced that a joint venture would be formed by our subsidiary Otokar Land Systems Limited LLC (Otokar LS) and Tawazun's subsidiary Heavy Vehicles Industries LLC (HVI) with the aim of cooperating with the United Arab Emirates (UAE) based Tawazun Operations Company LLC (Tawazun) to pursue defense industry operation in the region, and the UAE in particular.

In this context, the incorporation of Al Jasoor Heavy Vehicle Industry LLC (Al Jasoor), our joint venture in the UAE has been completed during the year.

As a result of the activities that Otokar and Tawazun carried out, Al Jasoor was awarded a contract to deliver 8x8 armored vehicles to UAE Armed Forces in the coming years. As the first phase of this project, a deal in the amount of USD 661 million has been signed between the UAE Armed Forces and Tawazun, and this agreement has been transferred to Al Jasoor.

MARKET - SALES - PRODUCTION

We can summarize the industry-specific developments in 2017 in line with the OSD (Automotive Manufacturers Association) data as follows:

- Total vehicle production rose year on year to 1,696,000 units by 14% in the January-December 2017 period, while the automobile production surged by 20% to 1,143,000 units. The transportation vehicle market in 2017 shrank by 3% with 980,000 units, while automobile market shrank by 5% with 723,000 units.

In 2017, vehicle segment-based production showed the following developments year on year;

- Light Commercial Vehicles Segment;
 - 24% increase in minibuses
 - 12% increase in midi-buses
 - Pickup production fared at the same levels as the previous year.
- Heavy Commercial Vehicles Segment;
 - 1% increase in buses
 - 31% increase in large size trucks
 - 62% increase in minor size trucks.
- The imported light commercial vehicle sales recorded a 2% year-on-year increase in 2017, while the domestic light commercial vehicle sales increased by 4%.

The imports had a 47% market share in this period.

GENERAL ASSEMBLY

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ A.Ş.

BOARD OF DIRECTORS' REPORT FOR THE PERIOD 1 JANUARY 2017 - 31 DECEMBER 2017

PRODUCTION AND SALES

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

	2017		2016		Change (Units)		Change (%)	
	Production	Sales	Production	Sales	Production	Sales	Production	Sales
Small Bus	1,319	1,492	990	1,347	329	145	33	11
Bus	493	539	665	697	(172)	(158)	(26)	(23)
4x4 Off-road Vehicles	30	30	99	103	(69)	(73)	(70)	(71)
Armored Vehicles	435	433	607	595	(172)	(162)	(28)	(27)
Trailer	355	332	628	625	(273)	(293)	(43)	(47)
Truck	430	361	1	266	429	95	100	(36)
Total	3,062	3,187	2,990	3,633	72	(446)	2	(12)

According to our consolidated financial statements prepared in line with the relevant legislation,

Our company's 2017 revenue rose by 9% year on year.

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

	2017 (January-December) (thousand TL)	2016 (January-December) (thousand TL)	Change %
Domestic Sales	1,238,732	1,192,702	4
Overseas Sales	546,540	441,813	24
Total	1,785,272	1,634,515	9

Our overseas total sales amounted to USD 149,264,000 in 2017 (USD 144,827,000 in 2016) accounting for 31% of the total turnover. (2016: 27%)

In 2017, our capacity utilization was 23%. (2016: 23%)

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

INVESTMENTS

The "Otokar R&D Center" investments that started several years ago following a major decision to accelerate research and development with the aim of attaining the rapid growth targeted in vehicles with owned intellectual property rights continued in 2017.

Our Company's total investments amounted to USD 4 million in 2017.

GENERAL ASSEMBLY

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ A.Ş.

BOARD OF DIRECTORS' REPORT FOR THE PERIOD 1 JANUARY 2017 - 31 DECEMBER 2017

ADMINISTRATIVE ACTIVITIES

The names and positions of the Senior Executives of our Company in 2017 are listed below:

Name & Lastname	Position
Ahmet Serdar GÖRGÜÇ	General Manager
Hüseyin ODABAŞ	Assistant General Manager-Finance
Ali Rıza ALPTEKİN	Assistant General Manager-Production and Procurement
Murat ULUTAŞ	Assistant General Manager-Engineering
Hasan Basri AKGÜL	Assistant General Manager-Sales and Marketing
Mustafa BAKIRCI	Assistant General Manager-Tank and Armored Tactical Vehicles

As of 31 December 2017 our Company has 2,147 employees in total (2016: 2,297).

Of these employees, 669 are administrative and office employees, and 1,478 are field employees.

(31 December 2016: 696 office employees, 1,601 field employees).

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

Our Company is subject to the Collective Labor Agreement signed between the Turkish Metal Workers Union and MESS (Turkish Employers' Association of Metal Industries) on 30 January 2018, and which came into force as of 1 September 2017.

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

Our Company's Corporate Governance Rating rose from 93.19 (9.32) in 2016 to 93.32 (9.33) in 2017.

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 2016 Otokar Sustainability Report, which can be accessed on the corporate website www.otokar.com.

GENERAL ASSEMBLY

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ A.Ş.

BOARD OF DIRECTORS' REPORT FOR THE PERIOD 1 JANUARY 2017 - 31 DECEMBER 2017

FINANCIAL RESULTS

Our Company presents to the public its 2017 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 Markets Board's (CMB) "Communiqué on the Principles of Financial Reporting in Capital Markets", numbered II-14.1. Appendices and comments related to these standards were also considered in preparing financial tables.

The financial tables, notes, and ratios showing the results of our activities in 2017 are also presented for your information.

The consolidated revenues of our company as of end 2017 totalled TL 1,785,272 thousand while we posted TL 471,626 thousand in gross sales profit.

Pursuant to CMB regulations and according to consolidated financial statements prepared in accordance with Turkish Financial Reporting Standards, the Company has posted a profit of TL 90,706 thousand before tax, and a net profit of TL 99,423 thousand in 2017.

In our Annual General Assembly on 24 March 2017, the upper limit for donations to be made by the Company in 2017 was set at TL 3,500 thousand. In 2017, our Company provided tax-deductible donations and aid amounting to TL 577 thousand 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 TL 2.92 gross=net cash dividend per one share with the nominal value of TL 1.00 at the rate of 291.667%,

Other shareholders be paid TL 2.48 net cash dividend per one share with the nominal value of TL 1.00 at the rate of 247.917%, and that the beginning date of payment of the dividends amounting to TL 70,000 thousand be Thursday, 22 March 2018,

We have submitted an overview of the operations in 2017 and the generated results for your information.

Dear Shareholders,

Today, our Board of Directors has completed its term. New members of the Board of Directors will be elected for the next period at this meeting. We would like to extend our thanks to your esteemed delegation for your reliance, support, and assistance to us during our term and greet you respectfully.

Istanbul, 21 February 2018



Yıldırım Ali KOÇ
Chairman

GENERAL ASSEMBLY INDEPENDENT AUDIT REPORT



1. Opinion

We have audited the accompanying consolidated financial statements of Otokar Otomotiv ve Savunma Sanayi A.Ş. (the “Company”) and its subsidiaries (collectively referred to as the “Group”), which comprise the consolidated statement of financial position as at 31 December 2017 and the consolidated statement of profit or loss, consolidated statement of other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended and the notes to the consolidated financial statements and a summary of significant accounting policies and consolidated financial statement notes.

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2017, and its financial performance and its cash flows for the year then ended in accordance with Turkish Accounting Standards (“TAS”).

Full text of the opinion pertaining to the Independent Audit Report is presented on page 84.

GENERAL ASSEMBLY

SUMMARY OF FINANCIAL TABLES

Consolidated Balance

Thousand TL	2016	2017
Total Current Assets	1,449,932	1,631,511
Non-current Assets	334,336	378,036
Total Assets	1,784,268	2,009,587
Total non-current Liabilities	1,066,339	1,072,319
Total Liabilities	474,971	653,714
Total Liabilities	1,541,310	1,726,033
Total Equity	242,958	283,554
Total Liabilities and Equity	1,784,268	2,009,587

Consolidated Income Statement

Thousand TL	2016	2017
Sales	1,634,515	1,785,272
Cost of Goods Sold	(1,224,670)	(1,313,646)
Gross Profit	409,845	471,626
Operating Profit	164,643	225,714
Profit before Tax	68,080	90,706
Tax Income/Expense	1,646	8,717
Net Profit for the Period	69,725	99,423
Earnings Per Share (kr)	0.291	0.414

GENERAL ASSEMBLY

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 22 February 2016 he has been 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 several Koç Group companies.



Halil İbrahim Ünver
Vice 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 Otokar.



Osman Turgay Durak
Board Member

Osman Turgay Durak (born 1952, Istanbul) received his undergraduate and graduate 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 and Board Member of Koç Holding in April 2010, till April 2015. 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. He was appointed as the CEO of Koç Holding A.Ş. in April 2015. Mr. Çakıroğlu currently serves as the CEO and Board Member of Koç Holding A.Ş. since April 2016.

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, as a mechanical engineer at Ford Otosan. Following his assignment as Project Engineer in Ford Otosan, he was appointed as the R&D Manager in 1980 at Koç Holding, and Assistant General Manager at Otokar in 1984. Between 1994 and 2005 he served as the General Manager at Otokar. 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 Defense 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 Automotive Manufacturers Association, Turkish Employers' Association of Metal Industries since April 2016, and Turkish Confederation of Employer Associations since December 2016.

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.

GENERAL ASSEMBLY

BOARD OF DIRECTORS



Ahmet Serdar Görgüç
Board Member and
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 Center. He served as the Automotive Unit Manager at the R&D Center 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. 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.



Abdülkadir Öncül
Independent Board Member

Abdülkadir Öncül (born 1946, Amasya) 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 Nezhil Olcay
Independent Board Member

Ahmet Nezhil Olcay (born 1947, Istanbul) received his Bachelor's degree in Business Administration from the Istanbul Academy of Economics and Commercial Sciences.

Starting his career at Tofaş Türk Otomobil Fabrikası A.Ş. in 1971, he went on to serve as Accounting Department Supervisor, Accounting Manager, Finance Manager, General Manager of Finance, General Manager of Foreign Affairs, Foreign Affairs Group Director, and as Accounting, Finance and Control Group Director with A Group First Level authority, respectively. After working continuously for 36 years at Tofaş Türk Otomobil Fabrikası A.Ş., he retired in 2007. During his term at Tofaş Türk Otomobil Fabrikası A.Ş., Mr. Olcay served on the boards of various Tofaş subsidiaries as 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.

GENERAL ASSEMBLY

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

Our Company distributes its profit in accordance with the provisions of the Turkish Commercial Code, the Capital Markets Law, the Tax Law and other applicable regulations as well as the relevant articles of our Company's Articles of Association. A balanced and consistent policy is followed in the distribution of profit among shareholders and the Company's beneficiaries in accordance with the Principles of Corporate Governance.

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.

GENERAL ASSEMBLY

PROFIT DISTRIBUTION PROPOSAL FOR THE ACCOUNTING PERIOD 01.01.2017-31.12.2017

Annex to Board of Directors resolution no. 2018/07 dated 13 February 2018

According to our consolidated financial statements pertaining to the 01.01.2017-31.12.2017 accounting period, prepared in accordance with Turkish Accounting Standards/Turkish Financial Reporting Standards (TMS/TFRS) put into effect by Public Oversight Accounting and Auditing Standards Authority, pursuant to Capital Markets Board's (CMB) "Communiqué on the Principles Financial Reporting in Capital Markets", numbered II-14.1, a "Consolidated Net Profit" of TL 99,422,469 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 22 March 2018.

Otokar Otomotiv ve Savunma Sanayi A.Ş. Profit Distribution Statement 2017 (TL)

1.	Paid-in/Issued Capital		24,000,000
2.	Legal Reserves (based on Legal Records)		59,798,147
	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	90,705,876	37,839,017
4	Taxes Payable (-)	(8,716,593)	-
5	Net Profit for the Period (=)	99,422,469	37,839,017
6	Retained Losses (-)		
7	Legal Reserves (-)		
8	NET DISTRIBUTABLE PROFIT FOR THE PERIOD (=)	99,422,469	37,839,017
9	Donations made during the year (+)	577,021	
10	Donations Included Net Distributable Profit for the Period	99,999,490	
11	Primary Dividend to Shareholders		1,200,000
	- Cash	49,999,745	
	- Bonus Shares		
	- Total		
12	Dividend Paid to Holders of Preferred Shares		
13	Other Dividend Paid		
	- to Board Members		
	- to employees		
	- to parties other than stakeholders		
14	Dividend Paid to Holders of Dividend Right Certificate		
15	Secondary Dividend to Shareholders	20,000,255	33,308,197
16	Legal Reserves	6,880,000	3,330,820
17	Statutory Reserves		
18	Special Reserves		
19	EXTRAORDINARY RESERVES	22,542,469	-
20	Other Funds Proposed to be Distributed		
	- Retained Earnings		35,491,803
21	Legal Reserves Allocated for Other Sources as Proposed to be Distributed		3,549,180

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	
		Cash (TL)	Bonus (TL)	Ratio (%)	Amount (TL)	Ratio (%)
Gross	-	70,000,000	0	70%	2.91667	291.667
	TOTAL	70,000,000	0	70%	2.91667	291.667
Net	-	59,500,000	0	60%	2.47917	247.917
	TOTAL	59,500,000	0	60%	2.47917	247.917

GENERAL ASSEMBLY

RESUMES OF THE CANDIDATES FOR THE BOARD OF DIRECTORS

Yıldırım Ali Koç (Board of Directors Candidate)

See Page 28 Board of Directors' Resumes

Halil İbrahim Ünver (Board of Directors Candidate)

See Page 28 Board of Directors' Resumes

Osman Turgay Durak (Board of Directors Candidate)

See Page 28 Board of Directors' Resumes

Levent Çakıroğlu (Board of Directors Candidate)

See Page 28 Board of Directors' Resumes

Kudret Önen (Board of Directors Candidate)

See Page 28 Board of Directors' Resumes

Ahmet Serdar Görgüç (Board of Directors Candidate)

See Page 29 Board of Directors' Resumes

Ahmet Nezih Olcay (Board of Directors Candidate)

See Page 29 Board of Directors' Resumes

Ali İhsan Kamanlı (Board of Directors Candidate)

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

Pursuant to the CMB's Principles of Corporate Governance, Mr. Kamanlı who is non-executive, qualifies as an independent board member. The roles he has assumed in the last ten years have been stated above, and he has left all of these positions at the end of the respective terms. Mr. Kamanlı 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.

Kenan Güven (Board of Directors Candidate)

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

Pursuant to the CMB's Principles of Corporate Governance, Mr. Güven who is non-executive, qualifies as an independent board member. Mr. Güven 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.

GENERAL ASSEMBLY

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.



AHMET NEZİH OLCAY



ALİ İHSAN KAMANLI



KENAN GÜVEN

GENERAL ASSEMBLY

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.



CURRENTLY CARRYING MILLIONS OF PASSENGERS IN MORE THAN SIXTY COUNTRIES ACROSS FIVE CONTINENTS, OTOKAR CONTINUES TO STRENGTHEN ITS POSITION IN THE EUROPEAN BUS MARKET.





OTOKAR

Doruk

COMMERCIAL VEHICLES PASSENGER TRANSPORTATION

IN 2017, 1 OF EVERY 3 BUSES SOLD IN TURKEY WAS OTOKAR BRANDED.



The Turkish bus market recorded 4 percent growth in 2017, with significant demand seen in the municipal bus and small bus segments. The 12-meter municipal bus segment grew 29 percent with the impact of contracts while this rate was 12 percent in the small and medium bus market whereas the inter-city bus market shrank 34 percent. Given the increasing modernization of urban transportation across Turkey, a new inner city product category was born, particularly for smaller buses, contributing to market growth. Among Otokar's target markets, France saw some decline while growth was observed in Italy, Spain and Germany.

years, standing apart as the most preferred bus brand. In 2017, Otokar sustained this successful trend in the overall bus market where it sold 1,473 vehicles domestically and 558 vehicles overseas. In Turkish +25-passenger capacity bus segment, Otokar captured 28 percent share and maintained its leadership position. In the small and medium size bus segment, where the highest number of vehicles is sold, the company finished the year with 39 percent share and market leadership. According to these data pertaining to all the segments in which the Company operates, 1 of every 3 buses sold in 2017 in Turkey was Otokar branded.

2,031
buses sold in
2017

Otokar has been designing and developing municipal buses as well as personnel shuttle buses and buses for tourism for more than 50

The vehicles that Otokar has developed based on user expectations have become the buses of choice for numerous municipalities in 2017.

Throughout the year, the Company delivered vehicles to be used for inner-city passenger transportation in Malatya and İnegöl. Furthermore, in the tourism and personnel transportation segment, Otokar continues to be the preferred supplier of several successful passenger transport companies.

Otokar, which currently offers the widest product portfolio of buses in Turkey ranging from 7 meters to 18.75 meters, continued to introduce new versions in 2017. The inner city bus Sultan LF, known particularly for its low operating costs, was added to the product range. In addition to renewing the Sultan/Navigo family, the favorite of shuttle service and tourism segments in recent years Otokar also updated its award-winning coach Doruk T, which is developed with a special consideration for tourism transportation, in response to requests from domestic customers.

Today, Otokar buses carry millions of passengers in more than sixty countries across five continents. As the Company continued to strengthen its position in the European bus market, commercial vehicle exports increased 14 percent in 2017. Total vehicle park rose to 2,500 levels in key target export markets, namely France, Italy and Spain, and 500 levels in the Balkans. The 18-meter Kent Articulated bus was exported to Italy, Serbia and Spain in 2017 as a first. Meanwhile, the Company also delivered Territo to its fleet customers in Serbia. Ulyso was introduced to the European market. Furthermore, delivery of Territo buses ordered by France continued.

Throughout 2017, Otokar participated in a number of exhibitions to promote its product range. The Company exhibited its vehicles in exhibitions in Spain, Belgium, Germany and Canada, unveiling Ulyso and Kent CNG for the first time abroad.



COMMERCIAL VEHICLES CARGO TRANSPORTATION



OTOKAR CONTINUED ITS OPERATIONS IN THE LIGHT TRUCK SEGMENT WITH THE 8.5-TON ATLAS TRUCK.

Truck

Turkish truck market recorded 4.2 percent growth in 2017 while Otokar continued its operations with the 8.5-ton Atlas after its entry into the light truck segment in 2013, capturing 11 percent market share with an increase of three points. Otokar Atlas was among the vehicles that was updated in 2017, and with the introduction of a new Euro 6 engine in 2017, the vehicle's cabin comfort and ergonomics were improved.

Standing apart with its low fuel consumption, powerful features, low operation costs, and environmentally friendly and efficient engine, Atlas added new customers to its existing clientele in 2017. In addition to private customers, public institutions and organizations also preferred Atlas to take on challenging tasks.

Trailer

Even though the trailer market was negatively affected by the current status of international logistics industry due to Turkey's geographical location, vitality in the construction industry brought momentum to the domestic market. However, the trailer market still shrank by 17 percent in 2017.

Meanwhile, Otokar stood out with products developed in line with customer needs and expectations for hazardous goods and perishable food transportation, which require specialization and expertise. Otokar sustained its successful performance in the market by delivering products, designed and developed in conformity with international standards and regulations for some of the largest Turkish companies in their respective fields.



11%

Otokar's share
in the light truck
market

DEFENSE INDUSTRY



OTOKAR MAKES ITS MARK ON THE DEFENSE INDUSTRY WITH ITS PRODUCTS AS WELL AS KNOW-HOW ON GLOBAL SCALE, ENGINEERING AND TECHNOLOGY TRANSFER CAPABILITIES.

More than 30 thousand vehicles that Otokar has produced currently serve the armed forces and security forces of more than thirty friendly and allied countries across five continents. Otokar is a registered NATO and United Nations supplier, offering tailored solutions to clients with its own technology, design, and applications. In addition to a product range of tactical wheeled and tracked armored vehicles up to 60 tons, Otokar also designs, develops and manufactures turret systems, all according to users' needs and expectations, and exports military products with the permission of relevant governments.

In 2016, Otokar established "Otokar Land Systems Limited" ("Otokar LS") in the Masdar City Free Zone in Abu Dhabi with a fully paid-in cash capital

of AED50,000 to follow its export activities and increase sales overseas, especially in the Gulf region. In 2017, Otokar LS formed Al Jasoor (Brave) as a joint venture with the leading UAE-based investment firm Tawazun's Heavy Vehicles Industry. Al Jasoor was awarded a contract worth USD 661 million to deliver 8x8 tactical armored vehicles for the United Arab Emirates Armed Forces. In addition to exporting products, Otokar will soon start transferring technology abroad as part of Turkey's biggest defense export deal signed for a single item.

While deliveries of Ural, Cobra and armored domestic security vehicles to domestic and international clients continued throughout the year, Otokar's Cobra II armored vehicle started to serve in border patrol

missions of the Turkish Armed Forces in 2017. Furthermore, Cobra II was exported to an Asian country as a first to be used in United Nations missions. Otokar continued to promote its products in different markets, and participated in exhibitions in Brazil, Poland, United Kingdom, Bahrain, Kuwait and Colombia, exhibiting its own designed and developed vehicles and turret systems for which the company is known worldwide.

In 2017, Otokar enhanced the capabilities of the tactical wheeled armored vehicle Cobra II to respond to all critical operational missions. Cobra II is designed for border surveillance and reconnaissance, and to carry out special tasks as a personnel carrier, missile launch pad, command control and ambulance.

Altay Project

The qualification and acceptance tests of the prototypes produced in the first phase of the main battle tank Altay, Turkey's biggest land systems project were successfully completed, and prototypes approved in February 2017. Following a tender that the Undersecretariat for Defense Industries opened for serial production of Altay, Otokar submitted its first offer on 16 November 2017, and best and final offer (BAFO) on 8 February 2018. Upon the request of the Undersecretariat for Defense Industries, BAFO was prepared as a cost-effective, realistic offer with minimal risk to respond to the emergency need plans of the Turkish Armed Forces in a timely manner.

With investments made in this process, the experience gained, and enhanced

IN ADDITION TO EXPORTING PRODUCTS, OTOKAR WILL SOON START TRANSFERRING TECHNOLOGY ABROAD AS PART OF TURKEY'S BIGGEST DEFENSE EXPORT DEAL SIGNED FOR A SINGLE ITEM.



R&D capabilities, Altay project brought Otokar a strategic momentum for its position in the defense industry. As a 100% Turkish-owned company with all the competencies to manufacture and export Altay and to contribute to Turkey's defense industry capabilities, Otokar is ready to serve. Otokar has already made all necessary preparations to commence with the signing of the agreement for serial production of Altay, planned production lines and designed necessary infrastructure, and also obtained the necessary Manufacturing Permit from the Ministry of Defense. Otokar further prepared for the future considering the threats that the Turkish army faces or may face and following

all the technological developments worldwide. All platforms have been designed with infrastructures that can be easily adapted to advancing technologies and respond better and more easily to arising threats.

This perspective has led Otokar to developing a new version of the main battle tank Altay for peacekeeping missions to respond to asymmetrical combat conditions. Unveiled during IDEF International Defense Industry Fair, Altay Urban Operation Tank (Altay AHT), was developed by Otokar on the Altay Main Battle Tank (Altay MBT) Body and Turret platform. With asymmetric engagements that mostly transpire in residential areas

+30

**countries using Otokar's
defense industry products**



increasing, Otokar has predicted that the modern armies' need for suitably equipped battle tanks would also increase, and designed Altay AHT with a special team of 20 in as short as five months. With better survivability, mobility and firing power capabilities compared to its counterparts in the world, Altay AHT is differentiated from Altay MBT with its armor system, mission equipment and a national suspension system with torsion bars.

With Altay, which has provided Turkish defense industry with new technologies and capabilities, Turkey's dependency on foreign defense

resources will be significantly reduced. The Republic of Turkey will own all design and intellectual property rights of Altay. Once serial production commences, Altay is expected to see demand from various countries, with the possibility of opening up production opportunities in different geographies with the involvement of friendly and allied countries.

Project process

The Undersecretariat for Defense Industries of Turkey selected Otokar as main contractor in the tender opened to procure a modern main battle tank, which the Turkish Armed Forces

needed, with a unique design and through national means. Consisting of two phases, Phase I and Phase II, the project was launched in January 2009. Phase I, carried out by Otokar as main contractor, comprised three stages: "Concept Design," "Detailed Design" and "Prototype Development and Qualification." Qualification and acceptance tests of the prototypes produced in the first phase were successfully completed, and prototypes approved in February 2017. Inspection and approval process of the Technical Data Package (TDP) by the Undersecretariat for Defense Industries currently continues.

R&D ACTIVITIES

OTOKAR CARRIES OUT R&D ACTIVITIES TO DEVELOP VARIOUS EQUIPMENT, DEVICES AND APPLICATIONS BY CONSIDERING FUTURE NEEDS.

24

patent applications filed in 2017

Otokar has allocated approximately 4 percent of its revenues for research and development activities in the last decade, with R&D expenditure amounting to TL 483 million in 2017. Otokar has filed applications for 269 patents including 37 industrial designs as well as utility models in the last decade for the products and subsystems developed. The patent applications filed in 2017 alone were 24.

Otokar conducts R&D activities to develop various equipment, devices and applications by considering future needs. The activities carried out with this perspective include taking part in CoMoSeF (Cooperative Mobility Services of the Future) as well as working on alternative-fuelled vehicles.



CoMoSeF: Otokar takes active part in the EU-funded CoMoSeF project along with 21 partners from seven countries. The project, which involved using the wireless connection protocol 802.11p developed to support smart mobility systems, was used in mass transportation for the first time and became a success story, going on to win the 2017 Celtic Innovation Award in Barcelona.

Alternative fuelled vehicles: Having launched many firsts in Turkey in this field, Otokar currently works on developing a 12-meter electric inner city bus.

Otokar R&D Center

The Otokar R&D Center is equipped with simulators, test equipment and computer systems to generate and

assess information for faster testing of manufactured vehicles with higher technology. Otokar's R&D capabilities include CAD programs for product development, prototyping workshops and software, computer-assisted analysis and simulation software, and test-focused apparatus and software.

The Otokar R&D Center houses a Climatic Test Chamber with Dynamometer, 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 Center is also home to Turkey's largest and the world's best state-of-the-art Electromagnetic Compatibility Test Center (EMC/EMI), which serves as an independent accreditation center for all R&D activities of domestic and foreign automotive and defense industries.

CREATING VALUE FOR STAKEHOLDERS

OTOKAR CONTINUALLY MEASURES THE SATISFACTION OF ITS CUSTOMERS AND BUSINESS PARTNERS AND IMPROVES COMMUNICATION TOOLS TO STAY CLOSE TO ITS USERS.



1,647
submissions received
by Otokar Suggestion
System in 2017

Clients

With aftersales services a key part of its operations, Otokar always strives to stay close to its users to meet their demands and requirements rapidly. In 2017, the company launched the Otokar Service Days campaign to improve customer satisfaction. With approximately 100 authorised aftersales service centers across Turkey participating, the campaign offered discounts to vehicle owners in labor, periodic maintenance and filter parts. Vehicle owners that chose periodic maintenance as part of the campaign, which was offered at aftersales service centers that operate with Otokar's service excellence

and professional technicians, were presented vests and check-up as gifts.

Authorised Dealers and Aftersales Service Centers

Knowing that authorised dealers and aftersales service centers are one of the cornerstones of its success, Otokar organised events to come together with representatives providing services across Turkey in 2017. In the events hosted in Girne and Antalya, the performance of 2016 was reviewed and 2017 targets were shared.

Suppliers

Otokar's procurement from 1,228 suppliers exceeded TL 1 billion in 2017.

TL 1,000+ million

Procurement expenditure in 2017

Nearly 60 percent of the company's procurement last year was from domestic supply industry.

IETT activities

Following the tenders in 2012, Otokar had delivered 900 Kent 290LF buses to IETT (Istanbul Electric Power, Funicular, and Streetcar Board) in 2018 with a five-year warranty. According to the contract, all processes except for the drivers employed by IETT to drive the vehicles and fuel are performed by Otokar. These include repairs and maintenance, paint and bodywork, tire management, AdBlue replenishment, inspection, washing and cleaning, supplies, manoeuvre driver in the garage, all operating costs of the garage and management of waste treatment facilities.

With all of these services fulfilled, the contract requires the vehicles to be available 95 percent on weekdays, 90 percent on Saturdays and 85 percent on Sundays for performance assessment purposes. Otokar has maintained an overall service availability ratio of 98.95 in the period from 2013 to 2017, and these values are also confirmed by IETT. Furthermore, IETT has contracted an independent audit firm, so-called a third eye, in 2017 to perform an assessment where Ayazağa Garage, which Otokar serves as the sole service provider, was selected the "best garage". During the garage inspections by the audit firm to assess companies providing services for IETT, Otokar was named the "best company".

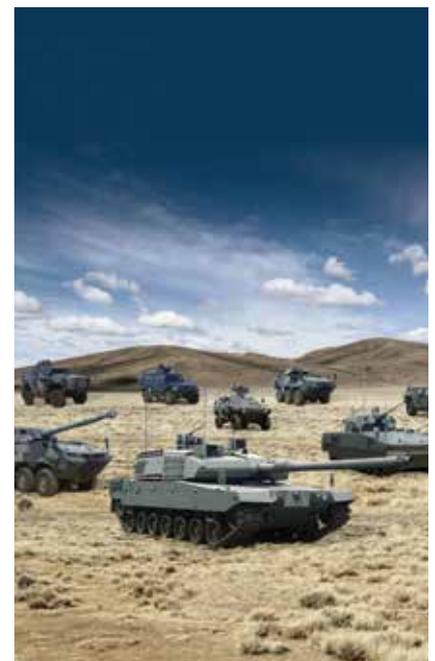
Efficiency

Otokar prioritises constantly measuring the satisfaction of its clients and business partners while improving the



communication tools to ensure closer contact with the users and launches projects to increase efficiency. In this context, Otokar encourages and supports suggestions, especially those submitted within the company. In 2017, the employees submitted 1,647 suggestions via the Otokar Suggestion System. Otokar's project titled "Our Borders are Ours to Protect" won first prize in the "Creative Innovators" category of the "Most Successful Koç Employees" competition, which is organised annually by Koç Group to discover and reward the best practices and projects toward the Group's vision and goals.

The enhancements introduced and projects implemented for occupational health and safety have also contributed to Otokar's efficiency improvement efforts.



SUSTAINABILITY

OTOKAR WAS LISTED ON THE 2017 BORSA ISTANBUL (BIST) SUSTAINABILITY INDEX FOR THE THIRD CONSECUTIVE YEAR WITH ITS SUCCESSFUL SUSTAINABILITY ACTIVITIES.



Otokar’s sustainability strategy is built on being environment friendly, committing to and upholding ethical business principles, aiming for operational excellence and fully meeting client expectations to preserve its local shareholding structure and to increase profitability through a business model focused on developing highly technological value added products. Otokar adopts and actively supports UN Global Compact Principles signed by Koç Holding in 2006 on behalf of all Group companies, carrying out several projects within the scope of sustainability programs. The activities that the company has carried out to create long-term value by incorporating economic, environmental and social factors with corporate governance principles have been evaluated as part of the “Index Selection Criteria” defined by Borsa Istanbul.

Otokar has been included in the Borsa Istanbul (BIST) Sustainability Index

with its successful activities in the field of sustainability, becoming one of the 44 companies to be listed for the third time. Otokar’s sustainability activities are detailed in the Sustainability Report, which can be accessed on the corporate website.

Environment

Otokar carried out several activities in 2017 for the development of environment-friendly products and production processes as one of the key topics of its sustainability program. The company’s improvement efforts for environmental protection continued throughout the year. In this context, various measurements and inspections were performed by the Ministry of Environment and Urbanization and Koç Holding with successful results. Furthermore, Otokar’s environmental permit was renewed, greenhouse gas levels verified, tie rod adjustment station improved and all of these activities were performed in line with Waste Management Plan.

1,567 employees

15,564 hours

of OHS training

Corporate Social Responsibility

Otokar carries our various activities with the aim of contributing to the community's education, health and culture. In 2017, Otokar became a signatory of the UN Women's Empowerment Principles (WEPs), the product of collaboration between UN Women and the UN Global Compact. As part of the "I Support Gender Equality for My Country" project launched within Koç Group in 2015, Otokar continued to create awareness of gender equality in the public transportation industry. Otokar also encouraged organizations that carried out exemplary work to increase female employment and promote gender equality with the awards presented at the 2017 Transportation Platform Awards Ceremony.

With the dietician polyclinic service previously offered to reduce the risk of chronic illnesses among employees within the scope of the No Barriers for my Country Project, numerous employees had reached a health weight. The Dietician Polyclinic service was launched again in 2017 for the same purpose. With the support of the polyclinic, participating Otokar employees lost a total of 622.5 kilograms, taking a successful step toward a healthy lifestyle.

Occupational Health and Safety

Otokar adopts a quality workplace approach within the scope of OHSAS 18001 Occupational Health and Safety Management, and continues to carry out production with the highest safety measures. While accident frequency was recorded as 8.71 in 2017, no discrepancies were identified in the OHSAS 18001 interim inspections

conducted in May. Furthermore, the inspections conducted by the Ministry of Health in the plant and garages of the company did not produce findings of any nonconformity.

Otokar continued to provide occupational health and safety trainings in 2017. In this context, 94 new recruits and 339 interns received occupational health and safety training, and 1,074 employees took refresher training in occupational health and safety, amounting to 15,564 hours of training for 1,567 employees in total. In 2017, a total of 18 occupational health and safety committee meetings were held, including 12 occupational safety committee meetings and 6 occupational health and safety meeting with contractors.

Among the 170 submissions from employees the company, which carries out world-class production with occupational health and safety policies and practices, chose and awarded the projects titled "Obstacle Hunters" and "Precautions at the Source/Welding". The "Obstacle Hunters" project was designed and implemented based on the pencil drawings of the employees on site. The project and Pedal Collection Apparatus it includes, were designed considering the working conditions to create a workplace for employees with disabilities without endangering their health and safety. With the implementation of the project these employees were able to work in a sitting position and using one hand. This project, which also won the MESS Golden Suggestion Award, resulted in timesaving of 5 minutes per vehicle and 167 hours in a year. The "Precautions at the Source/Welding"

project on the other hand was inspired by robotic welding applications in the production line and implemented in the aluminium tanker production line. The project was developed to ensure that employees are not exposed to direct welding smoke, metal vapour and particles, ultraviolet welding rays and heat; and the smoke suction system placed in the application area reduced the level of risk by sucking in the welding smoke before it built up. The project provided significant contribution to improving the ventilation of the space and is now used in various units along the production line.

Otokar won two prizes at the Golden Glove and Golden Suggestion Occupational Health and Safety Competition organized by Turkish Employers' Association of Metal Industries (MESS) to raise awareness of occupational health and safety and support sustainability efforts. In addition to winning the "Golden Glove" for the third time, Otokar was also deemed worth of the Golden Suggestion Award.



HUMAN RESOURCES

OTOKAR'S HUMAN RESOURCES MISSION IS DEFINED AS BECOMING THE MOST PREFERRED COMPANY IN THE DEFENSE INDUSTRY AND AUTOMOTIVE SECTOR FOR HIGHLY COMPETITIVE, KNOWLEDGEABLE AND DYNAMIC EMPLOYEES.



Otokar, empowered by its employees, pursues the goal of becoming a company where mutual trust and respect prevails and inclusivity and diversity is valued. In this context, Otokar focuses on continuous development of its qualified human resource as well as constantly improving motivation and commitment.

Recruitment

In all recruitments, Otokar only applies the criterion of being suitable for the job and aims to offer equal opportunities without any discrimination. The number of employees at Otokar totalled 2,122 as of 2017 yearend, with 504 employed at the R&D Center. During the year, the hiring process of 48 field employees was initiated, 34 employees started in the payroll and 8 were permanently hired.

Trainings

One of Otokar's strengths is being a

great school with the knowledge and experience that the employees gain. Supporting the employees to ensure that they keep learning and growing by providing technical trainings and experiences as well as contributing to their personal development is among Otokar's priorities. Aiming to reach more employees in terms of personal development in 2017, Otokar introduced several new training modules and carried out intense communication activities for this purpose. As a result of these activities, participation in personal development trainings in 15 different topics increased 65 percent compared with the previous year while total training hours of personal development modules reached 2,452 hours. Otokar managers were included in the management development programs delivered across the Koç Group under the leadership of Koç Holding. In this context, three executives attended Koç University's EMBA Program while

2,147

employees

73 managers took Management and Leadership Development Programs and 26 managers took Harvard Business School's online trainings. As a result of numerous training activities to enhance the employees' knowledge and expertise, participation in trainings was recorded as 90.8 percent in 2017 in the entire plant while 99.4 percent of office employees took at least one training program. Engineers and technicians as the driver of Otokar's technological developments became the employee group that participated in the highest number of trainings. They were followed by division managers and officers.

Otokar, aiming to contribute to the career development of younger generations by sharing its know-how and experience, hired a total of 28 students from engineering schools as long-term interns for departments related to their fields. Furthermore, a total of 297 students from 57 universities worked at Otokar for their summer internships and supported projects.

Improvements and enhancements toward the health and safety of employees also continued. A total of 12,840 hours of training was provided for Otokar employees in 2017 to refresh their occupational health and safety knowledge.

Events

With the objective of improving motivation and communication within the company, numerous social and sports activities were organized for Otokar employees throughout the year. Otokar employees, who joined the Employee Clubs, participated in various competitions and events.



Employees who won the competitions or tournaments were rewarded. Otokar employees participated in the 28th Koç Group Sports Festival in football, track and tennis disciplines. Otokar Sharing Conferences, held in different themes every year, were redesigned in 2017 with a new concept focused on Behavioural Sciences. Approximately 350 employees attended the seminars organized in collaboration with expert speakers in their respective fields. Otokar also organized events that employees could attend with their families. Approximately 1,200 members of the Otokar family saw film screenings during the semester and summer breaks. At the "Tomorrow's Inventors Coding the Future" event, children were given practical training.

Volunteering Activities

In addition to corporate social responsibility activities, Otokar also supports volunteering efforts carried out with the initiative of employees. Nearly 50 devices and measuring instruments, not used by Otokar employees, were donated to TAYSAD's "Don't Waste Donate Support Vocational Schools" project in 2017. Within the scope of Full

Support for Vocational Education Project, İMKB Sakarya Vocational Technical Anatolian High School was visited with the participation of experts from MESS Education Foundation to inform 400 high school students about Metal Industry and Automotive Sector. Books were donated to the library of the Computer Department of Arifiye Vocational and Technical Anatolian High School for students to gain the habit of reading. On 23 April, National Sovereignty and Children's Day, Otokar in cooperation with Turkish Metal Union Sakarya Branch, brought together orphaned children living Sakarya Governorship's Children's Housing with the players of the Sakaryaspor football team. In the 19 May Annual Youth Day Run, a separate category was created for the first time in 2017 for female employees within the scope of the "I Support Gender Equality for My Country" project, and the winners were rewarded. Furthermore, Otokar employees, who participated in the "We Are Running for All" event organized by Koç Group Sports Club within the scope of the HeforShe project led by Koç Holding, ran a total of 54 kilometers.

INVESTOR RELATIONS

THE RELATIONS BETWEEN OTOKAR AND SHAREHOLDERS ARE CARRIED OUT UNDER THE RESPONSIBILITY OF THE INVESTOR RELATIONS DEPARTMENT, WHICH COOPERATES WITH RELEVANT DIVISIONS.



Otokar strives to continually increase shareholder value through world-class investor relations and corporate governance practices. The relations between Otokar and shareholders are carried out under the responsibility of the investor relations department, which cooperates with relevant divisions.

The department is responsible for informing shareholders and potential investors, confidential information and trade secrets so as not to lead to information disparities and for establishing a two-way communication between company executives and shareholders and potential investors.

Throughout the year, 44 one-on-one meetings, including 19 abroad, were

held with analysts of brokerage firms and local and foreign investors and 92 teleconferences were conducted. In addition to attending three investor conferences and road shows, two of which were abroad, to meet with current and potential investors, the department also organized seven plant visits for corporate investors and analysts. In 2017, a total of 432 requests for information were received from shareholders, including 292 by phone and 140 with information request forms filled on the corporate website, and necessary communication was ensured to respond to all queries. Furthermore, the website, presentations and all other communication tools were regularly updated and shared with shareholders.

OTOKAR'S CORPORATE GOVERNANCE RATING ROSE TO 9.33 IN 2017.

General Assembly

The Company's Ordinary General Assembly will convene to review 2017 on Thursday, 15 March 2018 at 10.00 am at Divan Istanbul Hotel, Asker Ocağı Cad. No:1 Elmadağ, Şişli-Istanbul. Ordinary General Assembly Agenda, Board of Directors' Annual Report including Independent Auditor's Report, Corporate Governance Compliance Report and Profit Distribution Proposal, as well as the agenda items below and the Information Documents that contain necessary disclosures for compliance with Capital Markets Board regulations are made available for the shareholders to review at the Company's Head Office and on the corporate website (www.otokar.com), Public Disclosure Platform (KAP), the Central Depository Institution's (MKK) e-management and its e-company portal and the Electronic General Assembly System (EGKS) three weeks prior to the Ordinary General Assembly.

Corporate Governance Rating Score

Corporate Governance Rating is an indication that the company complies with corporate governance principles to a great extent and will continue to improve its efforts for further compliance. As announced to the public on 21 March 2017 with a material disclosure Otokar's Corporate Governance Rating measured by SAHA Kurumsal Yönetim ve Derecelendirme Hizmetleri A.Ş. (SAHA) rose to 93.32 (9.33 out of 10).

Company Shares

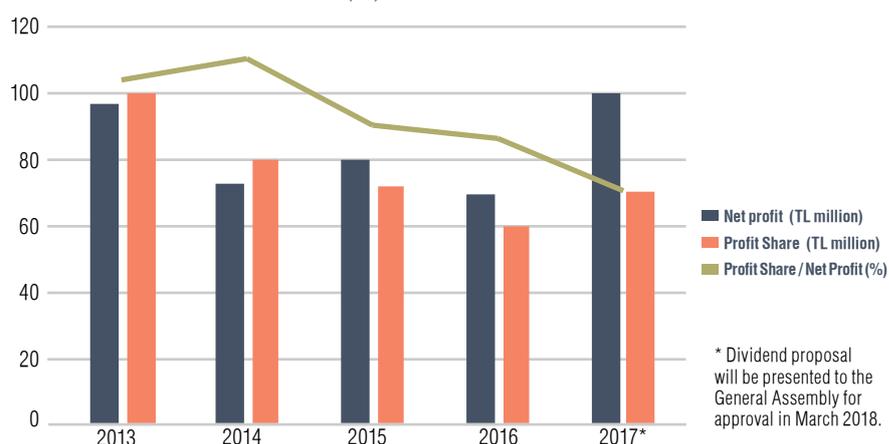
Otokar Otomotiv ve Savunma Sanayi A.Ş. shares have been traded on Borsa Istanbul since 24 April 1995 with ticker symbol "OTKAR" while the

company stocks are also included in the BIST30, Corporate Governance and Sustainability Indexes. The shares have seen the lowest TL 98.50 and the highest TL 145.55 in 2017. As a result of the evaluations by BIST, the company will continue to be included in the BIST Sustainability Index in 2018.

Profit distribution

Otokar has paid TL 70 million in gross dividends in 2016. The company's profit distribution policy is available on the corporate website and page 30 of this report. Profit Share Distribution table can be found on page 31 of this Annual Report.

PROFIT SHARE DISTRIBUTION (%)



Corporate Governance Rating Score	Weight	Rating
Shareholders	25%	95.41
Public Disclosure and Transparency	25%	93.00
Stakeholders	15%	97.13
Board of Directors	35%	90.41
Total		93.32

STOCK PERFORMANCE (%)



DIGITAL TRANSFORMATION

WITH DIGITAL TRANSFORMATION PROJECTS THAT WILL EXPEDITE OTOKAR'S PRODUCT DEVELOPMENT PROCESSES TAILORED FOR CLIENTS, ALL STAKEHOLDERS FROM PRODUCTION TO SUPPLIERS AND DEALERS WILL BENEFIT FROM A NEW AND SMART BUSINESS PLATFORM.



Otokar displays a proactive approach to maintaining its constantly evolving and competitive structure by planning for future requirements and evaluating all kinds of development opportunities including alternative fuelled and smart vehicles. Otokar also regards digital transformation an opportunity as important and crucial as entering new production segments. Otokar closely follows the requirements of the era and leads in this field, believing that the key to future success is in the hands of those that keep up with digital transformation. Therefore, Otokar aims to lead the industries in which it operates in the digital transformation journey, together with its employees who believe in their country and themselves and are in the habit of giving life to ideas.

Striving to meet this goal, Otokar has conducted meetings, surveys and

trainings and then determined 15 projects that define the company's digital vision. In this respect, the four key areas to focus on will be "Customer Facing Digital Channels," "Digitalised Production and Supply Chain," "Analytical Decision Making and Marketing" and "Digital Products and Services". Another objective with the projects to be implemented will be to increase customer satisfaction.

The projects in the first stage aim to reach quality and analysable data instantly and in hi definition. The Digital Quality launched for this purpose has brought the first prize at the IDS Turkey awards. With the Signalisation project, currently in second phase following the completion of phase one, integration in Otokar's supply chain, as well as transparency and tracking will increase.

15
digital
transformation
projects

FUTURE

AS OTOKAR PREPARES FOR THE FUTURE WITH DIGITAL TRANSFORMATION PROJECTS, THE COMPANY ALSO AIMS TO BUILD ON ITS COMPETITIVE POSITION IN THE INDUSTRY AND INCREASE THE SATISFACTION OF ITS STAKEHOLDERS, CUSTOMERS AND EMPLOYEES.



Celebrating its 55th anniversary in 2018, Otokar expects commercial vehicle market to fare similarly to 2017, with an inclination to rise with the expansion in the European market and approaching local elections at home. The company's targets include maintaining leadership of the Turkish bus market, increasing market share with the development of new products and strengthening its current position in exports. In addition to aiming for increasing market share in the light trucks segment, the company will continue its R&D activities in 2018, particularly on alternative fuelled vehicles including a 12-meter long electric bus.

In the defense industry, Otokar plans to concentrate on improving its activities in export markets. One of the targets is to complete preparations to meet the requirements of the United Arab Emirates for 8x8 armored vehicles through Al Jasoor. Otokar has also submitted its offer for serial production of the Altay project and now awaits the Undersecretariat for

Defense Industries to finalize their evaluations.

Aiming to be more competitive and productive, to win together with its business partners and increase the satisfaction of its customers and employees, Otokar is preparing for the future with digital transformation projects. Accordingly, its focus will be on data analytics in 2018. Analysing the data of implemented and on-going projects will reveal several development areas. With new projects to be created following these analyses, Otokar will achieve leaner processes and further improve the point reached in delivering quality products to its customers timely and at competitive prices with years of experience. Having started its operations with its own processes in the first phase, Otokar begin spreading digital transformation on to its suppliers in 2018. The activities that will start with raising digital transformation awareness will continue with integration with suppliers.



ALWAYS AIMING TO SUCCEED
TOGETHER WITH ITS BUSINESS
PARTNERS AND FURTHER
IMPROVING THE SATISFACTION OF
ITS CUSTOMERS AND EMPLOYEES,
OTOKAR IS PREPARING FOR
THE FUTURE WITH DIGITAL
TRANSFORMATION PROJECTS.



CORPORATE GOVERNANCE

LEGAL DISCLOSURES

Report Period:

1 January 2017-31 December 2017

Company Title:

Otokar Otomotiv ve Savunma Sanayi A.Ş.

Trade Registry / Number:

Istanbul / 83467

Shareholding 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
Diğer Ortaklar	7,322,306	30.51
Toplam	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 Mahallesi Saygı Caddesi
 No: 58 34854 Maltepe - Istanbul

Factory Address:

Atatürk Cad. No: 6
 54580 Arifiye Sakarya

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 Actions 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 2017

There were no private or public audits completed in 2017.

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

None.

Implementations of Resolutions of the Ordinary General Assembly

The resolutions reached at the Ordinary General Assembly, dated 24 March 2017, 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.

CORPORATE GOVERNANCE

2017 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 16 February 2018. The result of the report is below:

“Pursuant to Article 199 of the Turkish Commercial Code No. 6102, which entered effect on 1 July 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 16 February 2018: “The Board of Directors of Otokar Otomotiv ve Savunma Sanayi A.Ş. reached the conclusion that, in all transactions conducted in 2017 between Otokar Otomotiv ve Savunma Sanayi A.Ş. and its majority shareholder, as well as its subsidiaries, the transactions were either completed or the required measures were taken, and, in cases where the Company refrained from taking the required measures, due consideration was provided based on all facts and conditions known to the Company’s Board at the time, and, in this context, that there were no measures taken, or which were refrained from, that could harm the Company, and, accordingly, there were no transactions or measures that require balancing.”

CORPORATE GOVERNANCE

CORPORATE GOVERNANCE PRINCIPLES COMPLIANCE REPORT

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 line 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 93.32 (9.33 over 10) by SAHA Kurumsal Yönetim ve Kredi Derecelendirme Hizmetleri A.Ş., as announced in our material disclosure on 21 March 2017.

Reviewed using CMB’s new methodology based on “Corporate Governance Principles” introduced in January 2014, in line 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	NOTE
Shareholders	25%	95.41
Public Disclosure and Transparency	25%	93.00
Stakeholders	15%	97.13
Board of Directors	35%	90.41
Total		93.32

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 2017 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.

The activities in the area of Corporate Governance in 2017 were executed in 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 line with the provisions of the Corporate Governance Communiqué. The Committees are functioning effectively. Remuneration policy for the Board of Directors and Senior Management was established and announced to the shareholders during the General Assembly meeting. The information that must accompany the disclosure 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.

CORPORATE GOVERNANCE

CORPORATE GOVERNANCE PRINCIPLES COMPLIANCE REPORT

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, and detailed information are presented in related sections. 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. Detailed explanation regarding the issue is given in section 5.1.
- Regarding principle 4.4.7., as it is explained in section 5.1, members of the Board of Directors, 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 responsibilities are included in the notes to our financial statements and disclosed to the public collectively.

SECTION II – SHAREHOLDERS

2.1. Investor 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.

The main activities of the Investor Relations Department 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 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,
- 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 Board of Directors and Senior Management,
- Monitoring any amendments to the legislation and laws, and ensuring that they are implemented by the Company.

CORPORATE GOVERNANCE

CORPORATE GOVERNANCE PRINCIPLES COMPLIANCE REPORT

Investor Relations Department has held 44 one-to-one meetings, 19 of which were abroad, and 92 teleconferences with analysts from stockbrokerage companies, and local and foreign investors in 2017. The department has attended 3 investors' conferences and roadshows, 2 of which were abroad. Furthermore, 7 plant visits for corporate investors and analysts have been organized during 2017.

Investor Relations Department has prepared a report on their activities in 2017, 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 Director 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 27 June 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 is provided below:

Hüseyin Odabaş (Assistant General Manager-Finance)

Phone: +90 264 229 22 44

email: hodabas@otokar.com.tr

İrfan Özcan (Financial Affairs Director)

Phone: +90 264 229 22 44

email: iozcan@otokar.com.tr

Doğan Seçkinler (Finance Manager)

Phone: +90 264 229 22 44

email: dseckinler@otokar.com.tr

Hatice Gülşah Mutlu (Investor Relations and Corporate Governance Section Manager)

Phone: +90 264 229 22 44

email: gmutlu@otokar.com.tr

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 organization.

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.

CORPORATE GOVERNANCE

CORPORATE GOVERNANCE PRINCIPLES COMPLIANCE REPORT

2.3. General Assembly Meetings

In 2017, one Ordinary General Assembly was held on 24 March 2017 with 76% attendance at Divan Istanbul Hotel, Asker Ocağı Cad. No:1 Elmadağ, Şişli – İstanbul. 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, as it is directed in Company's Articles of Association.

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 anticipate 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 line 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 e-management and e-company portal of the Central Securities Depository of Turkey (MKK), 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 of Association are made available for the inspection of shareholders at the Company's Head Office 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. The minutes of Annual General Assemblies held in the past five years are also available on our corporate website in

CORPORATE GOVERNANCE

CORPORATE GOVERNANCE PRINCIPLES COMPLIANCE REPORT

Turkish and also in English. Additionally, the minutes are made available at the Company's Head Office, whenever demanded by shareholders.

In the Annual General Assembly held in 2017, shareholders were informed of the donations and aid made in 2016 on a separate agenda item. The limit for donations in 2017 was set at TL 3,500,000. 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. The minority rights are not entitled by the Articles of Association to those with a share smaller than 20% of the capital, and the minority was provided with rights according to the general provisions of the regulation.

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. In determining profit distribution, the Company takes 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 into account.

In principle, by taking the net profit for the period as stated in the financial statements, which are published in line 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 instalments in line 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 based on its capital in recent years are as follows:

Years	Capital (TL)	% of Dividend by Issued Capital	Amount of Distributed Dividend (TL)
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
From 2015 Profit	24,000,000	300.00%	72,000,000
From 2016 Profit	24,000,000	250.00%	60,000,000

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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 which are maintained by the Central Securities Depository of Turkey (MKK) 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 Markets 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 five years. The principles regarding the management of our website are set out in our Information Policy. The website address is printed in the Company's letterhead.

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.

Besides, 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 its 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 the employees have access in the Company. Moreover, the Corporate Communication Department 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 employees. Relations with dealers are sustained 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 office and field 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

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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. 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 frame 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 office and field 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 in written 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. 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.

Otokar has a variety of award systems established to appreciate the business success of its employees. The award criteria set for these award systems are shared with all employees at the beginning of the relevant award evaluation process by email. In addition, throughout the evaluation process, relevant criteria are also posted on the internal communication screens. At the end of the evaluation process, employees who will be rewarded are determined by the evaluation committee composed of the senior management of the Company.

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 behaviour 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 “Ethical Code”.

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CORPORATE GOVERNANCE PRINCIPLES COMPLIANCE REPORT

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. The Company keeps records of its activities, principally consisting of environmental impact reports.

Otokar aims to create long-term value by combining economic, environmental and social factors with institutional management principles. Otokar's work on this area is presented in detail in the Otokar Sustainability Report shared via www.otokar.com.

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 24 March 2017 to serve until the General Assembly to review the 2017 activities.

Name & Lastname	Title	Position Regarding Independence	Assignments in BoD & 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 ÇAKIROĞLU	Member	Non-Executive Member	Member of the Corporate Governance Committee	Koç Holding A.Ş.- CEO
Kudret ÖNEN	Member	Non-Executive Member	Member of the Risk Management Committee	Koç Holding A.Ş.- Executive
Ahmet Serdar GÖRGÜÇ	Member- General Manager	Non-Executive Member		
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 resumes 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.

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

CORPORATE GOVERNANCE

CORPORATE GOVERNANCE PRINCIPLES COMPLIANCE REPORT

A total of three nominees for independent members were submitted to the Corporate Governance Committee in 2017. Declarations to become a nominee and the resumes of these individuals shall be evaluated in the meetings of the Corporate Governance Committee and the Board of Directors meetings on 21 February 2017. 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 2017 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.

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 need. The Board of Directors drew up 22 resolutions in 2017. 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 that 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 that requires the Board's resolution.

Issues that 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.

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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.

Audit Committee

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

During the Board of Directors Meeting dated 3 April 2017, it was resolved that the Audit Committee would be composed of two independent members, with İsmet Böcügöz appointed as the Head, and Abdulkadir Öncül appointed as Member of the Committee.

In 2017, the Audit Committee submitted to the Board of Directors a written report of its views on the choice of independent auditor, its assessments of annual and interim financial statements to be disclosed to the public in terms of their truth, accuracy, and compliance with the accounting principles adopted by the Company as well as the decisions made during Committee meetings held within the year.

Corporate Governance Committee

The Corporate Governance Committee was established following the Board of Directors resolution dated 25 May 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 3 April 2017 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.

The Corporate Governance Committee notified the Board of Directors of the election of Independent Board Members, the assessment of the Corporate Governance Compliance Report as part of the annual report, its opinions on the assessment of the Investor Relations Department's Report as well as the decisions taken at its meetings throughout the year.

Risk Management Committee

In our Company's Board of Directors Meeting dated 11 July 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 3 April 2017, 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.

CORPORATE GOVERNANCE

CORPORATE GOVERNANCE PRINCIPLES COMPLIANCE REPORT

The Risk Management Committee notified the Board of Directors in writing regarding its assessment of the Risk Report to be included in the annual report, its opinions on the risk factors, and the decisions taken at its meetings throughout the 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 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 annual report.

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

The Board of Directors of our Company defines the strategic objectives, identifies the resources needed and controls the management performance in this context. The work of the relevant units in the formulation and implementation of strategic objectives is presented to the Board of Directors by the Senior Management. Financial performance values and strategic issues that are followed comparatively by budget are assessed by the Board of Directors in strategic evaluation meetings held three times a year and suggestions are developed.

5.6. Remuneration

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 26 March 2015. This was then approved at the Annual General Assembly and entered into effect. This policy, which was included in the agenda of the ordinary General Assembly meeting to review the 2016 activities and also disclosed to the public on the corporate website as well as with the annual report, will again be included in the agenda of the ordinary General Assembly Meeting on 15 March 2018 and presented to 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

MEMBERS OF THE BOARD OF DIRECTORS AND MEMBERS OF THE COMMITTEES

Board of Directors	Title	Beginning	Ending
Yıldırım Ali KOÇ	Chairman	24/03/17	15/03/18
Halil İbrahim ÜNVER	Vice Chairman	24/03/17	15/03/18
Osman Turgay DURAK	Member	24/03/17	15/03/18
Levent ÇAKIROĞLU	Member	24/03/17	15/03/18
Kudret ÖNEN	Member	24/03/17	15/03/18
Ahmet Serdar GÖRGÜÇ	Member-General Manager	24/03/17	15/03/18
İsmet BÖCÜGÖZ	Independent Member	24/03/17	15/03/18
Abdulkadir ÖNCÜL	Independent Member	24/03/17	15/03/18
Ahmet Nezih OLCAY	Independent Member	24/03/17	15/03/18
Audit Committee	Title	Beginning	Ending
İsmet BÖCÜGÖZ	Chairman	24/03/17	15/03/18
Abdulkadir ÖNCÜL	Member	24/03/17	15/03/18
Corporate Governance Committee	Title	Beginning	Ending
İsmet BÖCÜGÖZ	Chairman	24/03/17	15/03/18
Levent ÇAKIROĞLU	Member	24/03/17	15/03/18
Hüseyin ODABAŞ	Member	24/03/17	15/03/18
Risk Management Committee	Title	Beginning	Ending
Abdulkadir ÖNCÜL	Chairman	24/03/17	15/03/18
Kudret ÖNEN	Member	24/03/17	15/03/18

- 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 2017 have been included in Note 27 of the financial statements for the 2017 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 numbered as 2018/10 during the year, Board of Directors has been informed about the activities of the Board Committees in 2017.
- During 2017, 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.
- The CVs of the Board Members can be seen on pages 28 and 29.

CORPORATE GOVERNANCE

SENIOR MANAGEMENT



Ahmet Serdar Görgüç
General Manager

Ahmet Serdar Görgüç 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 Center. He served as the Automotive Unit Manager at the R&D Center 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.



Hüseyin Odabaş
Assistant General Manager-Finance

Hüseyin Odabaş graduated from the Department of Business Administration at Istanbul University in 1985. Mr. 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 worked as an Accounting Manager at Ormak -a Koç Group Company- between 1994 and 1996. After working as an Accounting Manager at Otokar between 1996 and 2003, he has been serving as Assistant General Manager responsible for Finance since 2003.



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

Hasan Basri Akgül graduated from the Department of Mechanical Engineering at Istanbul Technical University in 1984. He earned his Master's degree in the same discipline from Boğaziçi University in 1988. Mr. 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.



Ali Rıza Alptekin
Assistant General Manager-Production and Procurement

Ali Rıza Alptekin completed his undergraduate studies in the Mechanical Engineering Department of Boğaziçi University in 1989 and postgraduate studies in the Mechanical Engineering Department of Clemson University in 1991. Mr. Alptekin started his professional career in 1987 as Product Development Engineer at Ford Otosan, a company of the Koç Group, and served in this position until 1989. Then he worked as a Quality Manager in Istanbul Piston and Pim Sanayi during 1991-1993, as a Production Management Manager in Honda Turkey during 1993-2000 and as a Purchasing Director in Honda of UK Manufacturing during 2000-2006. He has been working in Otokar as the Assistant General Manager responsible for Production and Procurement since 2006.



Murat Ulutaş
Assistant General Manager-Engineering

Murat Ulutaş graduated from the Department of Mechanical Engineering at Istanbul Technical University in 1991. He received his Master's degree in the same discipline, also from Istanbul Technical University in 1993. Mr. Ulutaş began his professional career in 1992 as a Product Development Manager at Ford Otosan. He worked as a Product Development Manager (Trucks) between the years 2001-2004, and a Product Manager for PUMA 15 Vehicle in 2004 and 2005 at the same company. He has been working as the Assistant General Manager, Engineering, at Otokar since 2006.



Mustafa Bakırcı
Assistant General Manager-Tank and Armored Tactical Vehicles

Mustafa 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. Mr. Bakırcı began his professional career in 1980 as an R&D Engineer at TÜBİTAK Defense 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 Tank and Armored Tactical Vehicles since 2008.

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

Credit Risk: Kept under control with cash management and liquidity risk 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 transformation governance.

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, and the market and sector dynamics.

CORPORATE GOVERNANCE

RISK MANAGEMENT AND RISK MANAGEMENT COMMITTEE ACTIVITIES

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 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, Competition Compliance Program, Protection of Personal Data (KVK) Compliance Program, 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 11 July 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, Abdulkadir Öncül, while the other Member of the Committee is Board Member Kudret Önen.

The operating principles of the Committee are announced on our Company's website and it holds at least six meetings each year.

The Committee has met seven times in 2017. 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.

CORPORATE GOVERNANCE

INTERNAL AUDIT

a. 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 standard descriptions, 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 also audited by the independent audit company PwC Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş.

Otokar Otomotiv ve Savunma Sanayi A.Ş. has not been subjected to any private or public inspection in 2017.

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 in 2017. 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:
<https://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 pages 69-70).

CORPORATE GOVERNANCE

RESPONSIBILITY STATEMENT FOR FINANCIAL REPORTS

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

BOARD OF DIRECTORS' RESOLUTION ON APPROVAL OF FINANCIAL STATEMENTS

RESOLUTION DATE: 02/02/2018

RESOLUTION NUMBER: 2018/03

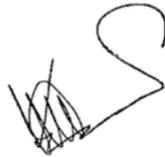
Regarding the consolidated financial statements pertaining to the period between 01.01.2017 – 31.12.2017, which were prepared by the Company and audited by PwC Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş. in compliance with Turkish Accounting Standards/Turkish Financial Reporting Standards ("TMS/ TFRS) and formats determined by Capital Markets Board (CMB) in accordance with CMB "Communiqué on Principles of Financial Reporting in Capital Markets" ("Communiqué") II.14.1, and include the consolidated statement of financial position, comprehensive income statement, statement of cash flow and statement of changes as well as notes to yearend financial statements ("Financial Statements" as a whole), we hereby declare our responsibility for the following:

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

Sincerely,



İsmet BÖCÜGÖZ
Chairman of Audit Committee



Abdulkadir ÖNCÜL
Member of Audit Committee



Ahmet Serdar GÖRGÜÇ
General Manager

CORPORATE GOVERNANCE

RESPONSIBILITY STATEMENT FOR ANNUAL REPORT

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

BOARD OF DIRECTORS' RESOLUTION ON APPROVAL OF ANNUAL REPORT

RESOLUTION DATE: 21/02/2018

RESOLUTION NUMBER: 2018/10

We hereby present the 2017 annual report, which was prepared by the Company and independently audited by PwC Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş. in compliance with Turkish Commercial Code and Capital Markets Board's "Communiqué on Principles of Financial Reporting in Capital Markets" ("Communiqué") II.14.1. Regarding the Annual Report prepared by our Company, we hereby declare our responsibility for the following:

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

Sincerely,



İsmet BÖCÜGÖZ
Board Member
Chairman of Audit Committee



Abdulkadir ÖNCÜL
Board Member
Member of Audit Committee



Ahmet Serdar GÖRGÜÇ
Board Member
General Manager

REPORTS AND FINANCIAL STATEMENTS

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OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

REPORT OF THE COMMITTEE RESPONSIBLE FROM AUDIT

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

We have convened to examine and express our opinion concerning the consolidated financial tables for the period from 1 January 2017 to 31 December 2017, prepared by Otokar Otomotiv ve Savunma Sanayi A.Ş. governing body in accordance with the Turkish Accounting Standards/Turkish Financial Reporting Standards ("TAS/TFRS") introduced by the Public Oversight, Accounting and Auditing Standards Authority ("POA") of Turkey pursuant to the provisions of the Capital Markets Board ("CMB") Communiqué II-14.1 on the Principles of Financial Reporting in Capital Markets ("Communiqué") and the independent auditor's report prepared by PwC Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik Anonim Şirketi for the said financial statements.

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

Within the scope of information submitted to us and as a result of our evaluations, we have been convinced that the consolidated financial statements for the 1 January - 31 December 2017 period comply with the accounting principles that the company follows, and are accurate and true. We present these financial statements for the approval of the Board of Directors.

Sincerely,

Istanbul, 2 February 2018

COMMITTEE RESPONSIBLE FOR THE AUDIT



İsmet BÖCÜGÖZ
Chairman of the Committee



Abdulkadir ÖNCÜL
Member of the Committee

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

CONVENIENCE TRANSLATION INTO ENGLISH OF CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY - 31 DECEMBER 2017 AND INDEPENDENT AUDITOR'S REPORT



INDEPENDENT AUDITOR'S REPORT

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

A. Audit of the Consolidated Financial Statements

1. Opinion

We have audited the accompanying consolidated financial statements of Otokar Otomotiv ve Savunma Sanayi A.Ş. (the "Company") and its subsidiaries (collectively referred to as the "Group"), which comprise the consolidated statement of financial position as at 31 December 2017 and the consolidated statement of profit or loss, consolidated statement of other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended and the notes to the consolidated financial statements and a summary of significant accounting policies and consolidated financial statement notes.

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2017, and its financial performance and its cash flows for the year then ended in accordance with Turkish Accounting Standards ("TAS").

2. Basis for Opinion

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

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

BJK Plaza Süleyman Seba Caddesi No:48 B Blok Kat:9 Akaretler Beşiktaş 34357 İstanbul-Turkey

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OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

CONVENIENCE TRANSLATION INTO ENGLISH OF CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY - 31 DECEMBER 2017 AND INDEPENDENT AUDITOR'S REPORT

3. Key Audit Matters

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

Key audit matters	How audit matters are handled
<p>Warranty Expense Provision</p> <p>As explained in Note 15, the Group has warranty provision amounting to TL 53 million as of 31 December 2017.</p> <p>The Group calculates warranty provisions for possible future claims, maintenance and repair expenses in the following years for products sold in the current year. Warranty provisions are calculated based on the remaining warranty period per vehicle and the warranty expense per vehicle estimated using the previous years' data.</p> <p>We focused on this matter during our audit for the reasons below:</p> <p>a) the amount of the warranty provision balance is material in the consolidated financial statements</p> <p>b) the warranty provision is calculated per vehicle, depending on certain assumptions such as the probable warranty claims per vehicle and foreign exchange rates. Changes in such assumptions may affect the consolidated financial statements.</p>	<p>We performed the following audit procedures to test the reasonableness of the warranty provision:</p> <ul style="list-style-type: none"> - We tested the controls related to reviewing and approving the Group's assumptions in establishing the accounting estimates used and did not identify any significant exceptions. - We tested the remaining warranty period per vehicle as follows: <ul style="list-style-type: none"> - Group management provided us with the warranty expense provision calculation. We checked the number of vehicles sold subject to the warranty calculation and tested the invoices of the vehicles sold in the current period by using the sampling method. - We tested the mathematical accuracy of the remaining warranty period calculated for each vehicle sold by recalculation. We did not identify any significant exceptions. - We tested the warranty provision per vehicle estimated using the current and previous years' actual warranty expenses as stated below: <ul style="list-style-type: none"> - We compared the consistency of the actual warranty expenses with the Group management's past estimations and assumptions and we did not find any material differences. - The Group calculates the current year's warranty expense provision per vehicle in hard currency based on the actual warranty expenses realized in the current and previous periods taking into consideration the changes in the foreign exchange rate. We assessed the reasonableness of the warranty expense provision taking into account the actual warranty expenses and fluctuations in the foreign exchange rate and noted that this amount is not significantly different from the warranty expense provision calculated by the Group. - We tested the Group's actual warranty provision expenses for the current period using by sampling method and did not identify any significant exceptions.

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

CONVENIENCE TRANSLATION INTO ENGLISH OF CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY - 31 DECEMBER 2017 AND INDEPENDENT AUDITOR'S REPORT

4. Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

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

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

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

5. Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

CONVENIENCE TRANSLATION INTO ENGLISH OF CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY - 31 DECEMBER 2017 AND INDEPENDENT AUDITOR'S REPORT

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

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

B. Other Responsibilities Arising From Regulatory Requirements

1. No matter has come to our attention that is significant according to subparagraph 4 of Article 402 of Turkish Commercial Code ("TCC") No. 6102 and that causes us to believe that the Company's bookkeeping activities concerning the period from January 1 to 31 December 2017 period are not in compliance with the TCC and provisions of the Company's articles of association related to financial reporting.
2. In accordance with subparagraph 4 of Article 402 of the TCC, the Board of Directors submitted the necessary explanations to us and provided the documents required within the context of our audit.
3. In accordance with subparagraph 4 of Article 398 of the TCC, the auditor's report on the early risk identification system and committee was submitted to the Company's Board of Directors on 2 February 2018.

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



Beste Gücümén, SMMM
Partner

Istanbul, 2 February 2018

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

CONSOLIDATED BALANCE SHEETS AS OF 31 DECEMBER 2017 AND 2016

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

	Notes	(Audited) 31 December 2017	(Audited) 31 December 2016
Assets			
Current assets			
Cash and cash equivalents	4	228,958	38,598
Trade receivables	8	445,329	388,658
<i>Due from related parties</i>	<i>27</i>	<i>29,656</i>	<i>29,437</i>
<i>Due from other parties</i>	<i>8</i>	<i>415,673</i>	<i>359,221</i>
Other receivables	9	68	20
Due from customers on contract works	11	312,030	245,830
Inventories	10	413,056	493,870
Derivative financial instruments	7	1,325	52
Prepaid expenses	17	190,153	176,766
Other current assets	17	40,632	106,138
Total current assets		1,631,551	1,449,932
Non-current assets			
Trade receivables	8	10,235	9,174
Other receivables	9	281	234
Financial investments	5	41	41
Property, plant and equipment	12	101,009	105,102
Intangibles	13	219,864	181,932
Deferred income tax asset	25	46,606	37,853
Total non-current assets		378,036	334,336
Total assets		2,009,587	1,784,268

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

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

CONSOLIDATED BALANCE SHEETS AS OF 31 DECEMBER 2017 AND 2016

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

	Notes	(Audited) 31 December 2017	(Audited) 31 December 2016
Liabilities			
Current liabilities			
Short-term borrowings	6	429,248	3
Short-term portion of long-term borrowings	6	84,410	4,669
Trade payables	8	62,117	401,145
<i>Due to related parties</i>	27	14,094	11,017
<i>Due to other parties</i>	8	48,023	390,128
Employee benefit obligations	17	24,294	21,440
Other payables, third parties	9	42,549	37,958
Deferred income	17	21,084	200,624
Government grants	14	1,940	2,156
Short-term provisions	15	403,935	387,144
<i>Provisions for employee benefits</i>		9,286	8,491
<i>Other provisions</i>		394,649	378,653
Other current liabilities	17	2,742	11,200
Total current liabilities		1,072,319	1,066,339
Non-current liabilities			
Long-term borrowings	6	190,000	425,447
Government grants	14	1,441	3,382
Long-term provisions		31,693	38,388
<i>Provisions for employee benefits</i>	16	31,693	28,088
<i>Other provisions</i>	15	-	10,300
Deferred income	17	430,580	7,754
Total non-current liabilities		653,714	474,971
Total liabilities		1,726,033	1,541,310
Equity			
Paid-in share capital	18	24,000	24,000
Inflation adjustment on share capital	18	52,743	52,743
Restricted reserves	18	59,895	54,015
Accumulated other comprehensive income and expense that will not be reclassified to statement of profit or loss	18	(4,880)	(4,986)
<i>Defined benefit plans remeasurement losses</i>	18	(4,880)	(4,986)
Accumulated other comprehensive income and expense that may be reclassified to statement of profit or loss		2,396	1,329
<i>Currency translation differences</i>		2,396	1,329
Retained earnings	18	49,977	46,132
Net profit for the period	18	99,423	69,725
Total equity		283,554	242,958
Total liabilities and equity		2,009,587	1,784,268

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

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ
CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE PERIODS 1 JANUARY - 31 DECEMBER 2017 AND 2016

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

	Notes	(Audited) 1 January – 31 December 2017	(Audited) 1 January – 31 December 2016
Net Sales	19	1,785,272	1,634,515
Cost of sales (-)	19	(1,313,646)	(1,224,670)
GROSS PROFIT		471,626	409,845
Marketing expenses (-)	20	(234,662)	(189,513)
General administrative expenses (-)	20	(69,524)	(63,132)
Research and development expenses (-)	20	(43,644)	(36,176)
Other operating income	22	448,664	422,909
Other operating expenses (-)	22	(346,746)	(379,290)
OPERATING PROFIT		225,714	164,643
Income from investing activities		1,250	87
OPERATING INCOME BEFORE FINANCIAL EXPENSES		226,964	164,730
Financial income	23	14,548	15,517
Financial expense (-)	24	(150,806)	(112,167)
PROFIT BEFORE TAX		90,706	68,080
Tax income/(expense) from continued operations			
Current tax income/(expense)	25	(66)	1,387
Deferred tax income/(expense)	25	8,783	258
PROFIT FOR THE PERIOD		99,423	69,725
Items that will not be reclassified to statement of profit or loss			
Remeasurement (losses)/gains		136	(1,409)
Deferred tax income/(expense)		(30)	282
Items that may be reclassified to statement of profit or loss			
Currency translation differences		1,067	1,392
Other comprehensive income		1,173	265
TOTAL COMPREHENSIVE INCOME		100,596	69,990
Earnings per share (Kr)	26	0,414	0,291

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

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE PERIODS

1 JANUARY - 31 DECEMBER 2017 AND 2016

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

					Accumulated other comprehensive income and expense that will not be reclassified to statement of profit or loss	Accumulated other comprehensive income and expense that may be reclassified to statement of profit or loss				
		Paid in share capital	Inflation adjustments	Restricted reserves	Remeasurement losses on defined benefit plans	Currency translation differences	Retained earnings	Net income for the period	Total equity	
Previous period	Opening balances	24,000	52,743	46,935	(3,859)	(63)	43,296	81,916	244,968	
	Transfers	-	-	7,080	-	-	74,836	(81,916)	-	
	Dividends paid	-	-	-	-	-	(72,000)	-	(72,000)	
	Total comprehensive income	-	-	-	(1,127)	1,392	-	69,725	69,990	
	Closing balances	24,000	52,743	54,015	(4,986)	1,329	46,132	69,725	242,958	
Current period	Opening balances	24,000	52,743	54,015	(4,986)	1,329	46,132	69,725	242,958	
	Transfers	-	-	5,880	-	-	63,845	(69,725)	-	
	Dividends paid	-	-	-	-	-	(60,000)	-	(60,000)	
	Total comprehensive income	-	-	-	106	1,067	-	99,423	100,596	
	Closing balances	24,000	52,743	59,895	(4,880)	2,396	49,977	99,423	283,554	

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

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE PERIODS

1 JANUARY - 31 DECEMBER 2017 AND 2016

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

	Notes	(Audited) 1 January – 31 December 2017	(Audited) 1 January – 31 December 2016
CASH FLOWS FROM OPERATING ACTIVITIES		204,043	409,297
Net profit for the period		99,423	69,725
Adjustments to reconcile income before taxes to net cash flows from operating activities:		270,516	194,929
Depreciation and amortization	12, 13	62,108	49,193
Adjustments in relation to impairment:		5,078	3,397
- Provision for doubtful receivables	8	5,084	3,486
- Provision for inventories	10, 21	(6)	(89)
Adjustments in relation to provision:		64,404	41,232
- Provision for employee benefits	16, 21	8,942	7,465
- Warranty provision expenses	15, 21	55,462	33,767
Adjustments in relation to interest income and expenses:		94,732	77,231
- Interest income on time deposits	23, 27	(1,050)	(527)
- Interest expense on borrowings	24, 27	95,782	77,758
Adjustments in relation to unrealised foreign exchange gains and losses		38,861	19,807
Adjustments in relation to fair value gains and losses		6,583	4,156
- Fair value losses/(gains) on financial derivative instruments, net		6,583	4,156
Adjustments in relation to gains or losses on sales of property, plant and equipment		(1,250)	(87)
- Gain on sale of property, plant and equipments		(1,250)	(87)
Changes in net working capital		(108,993)	174,410
Change in trade receivables		(62,911)	33,101
Change in due from customers on contract works		(66,200)	(57,552)
Change in inventories		80,820	(56,909)
Change in trade payables		(339,028)	232,546
Other changes		278,326	23,225
- Changes in other operating assets		52,119	(94,939)
- Changes in other operating liabilities		226,207	118,164
Cash flows from operations		260,946	439,065
Payments in relation to employee benefits	16	(5,201)	(3,107)
Payments in relation to other provisions	15	(43,782)	(28,213)
Deductions/(payments) in relation to income tax		(66)	1,387
Other cash collections/(payments)		(7,854)	165
CASH FLOWS FROM INVESTING ACTIVITIES		(94,697)	(76,630)
Cash outflows from purchases due to obtaining control of subsidiaries		-	(41)
Proceeds from sale of property, plant and equipment and intangible assets		4,532	1,155
- Proceeds from sale of property, plant and equipment		4,532	1,155
Cash outflows due to purchase of property, plant and equipment and intangible assets		(99,229)	(77,744)
- Purchase of property, plant and equipment	12	(13,273)	(14,335)
- Purchase of intangible assets	13	(85,956)	(63,409)
CASH FLOWS FROM FINANCING ACTIVITIES		79,947	(354,197)
Cash inflow from to borrowings		1,119,456	854,569
- Proceeds from bank borrowings		1,119,456	854,569
Cash outflow due to repayment of borrowings		(893,393)	(1,065,453)
- Repayments of borrowings		(893,393)	(1,065,453)
Dividends paid		(60,000)	(72,000)
Interest paid		(87,166)	(71,840)
Interest received		1,050	527
NET DECREASE IN CASH AND CASH EQUIVALENTS BEFORE THE EFFECT OF CURRENCY TRANSLATION DIFFERENCES		189,293	(21,530)
Currency translation difference on cash and cash equivalents		1,067	1,392
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		190,360	(20,138)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	4	38,598	58,736
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	4	228,958	38,598

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

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO CONSOLIDATED YEARS ENDED FINANCIAL STATEMENTS

AT 31 DECEMBER 31, 2017 AND 2016

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

NOTE 1 - GROUP'S ORGANIZATION AND NATURE OF OPERATIONS

Otokar Otomotiv ve Savunma Sanayi A.Ş. ("Otokar" or the "Company"), was established in 1963 and is registered in Istanbul, Turkey and operating under the Turkish Commercial Code. The Company operates in the automotive industry and off road vehicles, armored vehicles, minibuses, midibuses and autobuses, trailers, semi-trailers, light truck and cross-country comprises the majority of its production.

The registered addresses of the Company are as follows:

Headquarters: Aydınevler Mahallesi Saygı Caddesi No: 58 34854 Maltepe - İstanbul

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

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

Legal Name	Nature of operations	Country	Capital	Ownership (%)
Otokar Europe SAS	Trade	France	Euro 100,000 (239,280 TL)	100.00

On 13 April 2016, the Company management has decided to initiate the establishment of a subsidiary; "Otokar Land Systems LLC" in United Arab Emirates with a capital of Arab Emirates Dirham ("AED") 50,000 in order to organise export activities and increase foreign sales especially to these regions. The establishment process was finalised as of the date of this consolidated financial statements. Since financial activities of "Otokar Land System LLC" does not materially affect the financial statements, the investment was presented under as financial investments.

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

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

	31 December 2017		31 December 2016	
	Period end	Average	Period end	Average
Total personnel number	2,147	2,205	2,297	2,409

The consolidated financial statements for the year ended 31 December 2017 were authorized for issue and signed by the Board of Directors of Otokar on 2 February 2018. The accompanying consolidated financial statements may be amended by the General Assembly.

Otokar is registered to the Capital Market Board ("CMB") and its shares are listed on the Borsa Istanbul A.Ş. ("BIST") since 1995. As of 31 December 2017, 27.45% of the shares are quoted on the BIST.

As of 31 December 2017, the principal shareholders and their respective shareholding percentages are as follows:

Koç Holding A.Ş.	44.68
Ünver Holding A.Ş.	24.81
Publicly traded	27.45
Other	3.06
	100.00

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO CONSOLIDATED YEARS ENDED FINANCIAL STATEMENTS

AT 31 DECEMBER 2017 AND 2016

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

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

Otokar Otomotiv ve Savunma Sanayi A.Ş. is controlled by Koç Holding A.Ş.

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

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

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

NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

2.1 Basis of presentation of consolidated financial statements

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

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

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

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

Functional and presentation currency

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 2004, since the objective conditions which require the application of restatement of financial statements have not been realized and that based on the existing data CMB has foreseen that the indications whether such conditions are going to be realized in the future is no longer probable. Therefore, non-monetary assets, liabilities and equity items including the share capital as of 31 December 2017 and 31 December 2016 have been restated by applying the relevant conversion factors through carrying additions after 31 December 2004 at their nominal values.

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO CONSOLIDATED YEARS ENDED FINANCIAL STATEMENTS

AT 31 DECEMBER 31, 2017 AND 2016

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

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

2.2 Accounting errors and changes in accounting estimates

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

If changes in accounting estimates are related to only one period, they are recognised in the period when changes are applied; if changes in estimates are related to future periods, they are recognized both in the period where the change is applied and future periods prospectively. The accounting policies except the situation stated below used in the preparation of these consolidated financial statements for the year ended 31 December 2017 are consistent with those used in the preparation of financial statements for the year ended 31 December 2016.

2.3 Changes in accounting policies

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

a. Standards, amendments and interpretations applicable as at 31 December 2017

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

- a) title of TAS / TFRS,
 - b) the accounting policy change, if any, has been applied considering the transition principles
 - c) clarification of the changes in the accounting policy,
 - d) disclosure of transition principles, if any,
 - e) the effects of the transitional principles, if any, on future periods,
 - f) as much as possible, adjustments related to the current and each previous period presented:
 - i. shall disclose the effects for each financial statement line item and
 - ii. if the "TAS 33, Earnings per Share" standard is applicable for the Company, the amounts of ordinary and diluted earnings per share should be recalculated.
 - g) if possible, effects of adjustments for non-presentation periods and
 - h) If retrospective application is not possible for any period or periods, the events leading to this and the date from which the change in accounting policy is applied and how it is applied should be disclosed,
- **Amendments to TAS 7, 'Statement of cash flows'**; on disclosure initiative, effective from annual periods beginning on or after 1 January 2017. These amendments introduce an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities. The amendment is part of the IASB's Disclosure Initiative, which continues to explore how financial statement disclosure can be improved.

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO CONSOLIDATED YEARS ENDED FINANCIAL STATEMENTS

AT 31 DECEMBER 2017 AND 2016

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

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

- **Amendments TAS 12, 'Income Taxes'**; effective from annual periods beginning on or after 1 January 2017. The amendments clarify the accounting for deferred tax where an asset is measured at fair value and that fair value is below the asset's tax base. It also clarifies certain other aspects of accounting for deferred tax assets.
- **Annual improvements 2014-2016**; effective from annual periods beginning on or after 1 January 2017. These amendments impact 2 standards:
- **TFRS 12, 'Disclosure of interests in other entities'**; regarding clarification of the scope of the standard. These amendments should be applied retrospectively for annual periods beginning on or after 1 January 2017.

b. Standards, amendments and interpretations effective after 1 January 2018

If a new TAS / TFRS issued but not yet effective and not early adopted:

- a) the circumstance and
- b) the likely or reasonable estimated effect of the change in the financial statements for the adoption period should be disclosed in the financial statements.
- **TFRS 9, 'Financial instruments'**; effective from annual periods beginning on or after 1 January 2018. This standard replaces the guidance in TAS 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.
- **TFRS 15, 'Revenue from contracts with customers'**; effective from annual periods beginning on or after 1 January 2018. TFRS 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.
- **Amendment to TFRS 15, 'Revenue from contracts with customers'**, effective from annual periods beginning on or after 1 January 2018. These amendments comprise clarifications of the guidance on identifying performance obligations, accounting for licences of intellectual property and the principal versus agent assessment (gross versus net revenue presentation). New and amended illustrative examples have been added for each of those areas of guidance. The IASB has also included additional practical expedients related to transition to the new revenue standard.

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO CONSOLIDATED YEARS ENDED FINANCIAL STATEMENTS

AT 31 DECEMBER 31, 2017 AND 2016

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

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

- **Amendments to TFRS 4, 'Insurance contracts';** regarding the implementation of TFRS 9, 'Financial Instruments'; effective from annual periods beginning on or after 1 January 2018. These amendments introduce two approaches: an overlay approach and a deferral approach. The amended standard will:
 - give all companies that issue insurance contracts the option to recognise in other comprehensive income, rather than profit or loss, the volatility that could arise when IFRS 9 is applied before the new insurance contracts standard is issued; and
 - give companies whose activities are predominantly connected with insurance an optional temporary exemption from applying TFRS 9 until 2021. The entities that defer the application of TFRS 9 will continue to apply the existing financial instruments standard IAS 39.
- **Amendment to TAS 40, 'Investment property';** relating to transfers of investment property; effective from annual periods beginning on or after 1 January 2018. These amendments clarify that to transfer to, or from, investment properties there must be a change in use. To conclude if a property has changed use there should be an assessment of whether the property meets the definition. This change must be supported by evidence.
- **Amendments to TFRS 2, 'Share based payments';** on clarifying how to account for certain types of share-based payment transactions; effective from annual periods beginning on or after 1 January 2018. This amendment clarifies the measurement basis for cash-settled, share-based payments and the accounting for modifications that change an award from cash-settled to equity-settled. It also introduces an exception to the principles in TFRS 2 that will require an award to be treated as if it was wholly equity-settled, where an employer is obliged to withhold an amount for the employee's tax obligation associated with a share-based payment and pay that amount to the tax authority.
- **Annual improvements 2014 - 2016;** effective from annual periods beginning on or after 1 January 2018. These amendments impact 2 standards:
 - TFRS 1, 'First time adoption of TFRS', regarding the deletion of short-term exemptions for first-time adopters regarding TFRS 7, TAS 19 and TFRS 10,
 - TAS 28, 'Investments in associates and joint venture' regarding measuring an associate or joint venture at fair value.
- **TFRS 22, 'Foreign currency transactions and advance consideration';** effective from annual periods beginning on or after 1 January 2018. This TFRIC addresses foreign currency transactions or parts of transactions where there is consideration that is denominated or priced in a foreign currency. The interpretation provides guidance for when a single payment/receipt is made as well as for situations where multiple payments/receipts are made. The guidance aims to reduce diversity in practice.

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

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

- **Amendment to TFRS 9, 'Financial instruments'**; effective from annual periods beginning on or after 1 January 2019. This amendment confirms that when a financial liability measured at amortised cost is modified without this resulting in de-recognition, a gain or loss should be recognised immediately in profit or loss. The gain or loss is calculated as the difference between the original contractual cash flows and the modified cash flows discounted at the original effective interest rate. This means that the difference cannot be spread over the remaining life of the instrument which may be a change in practice from TAS 39.
- **Amendment to TAS 28, 'Investments in associates and joint venture'**; effective from annual periods beginning on or after 1 January 2019. These amendments clarify that companies account for long-term interests in associate or joint venture to which the equity method is not applied using TFRS 9.
- **TFRS 16, 'Leases'**; effective from annual periods beginning on or after 1 January 2019, this standard replaces the current guidance in TAS 17 and is a far reaching change in accounting by lessees in particular. Under TAS 17, lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). TFRS 16 now requires lessees to recognise a lease liability reflecting future lease payments and a 'right of use asset' for virtually all lease contracts. The IASB has included an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees. For lessors, the accounting stays almost the same. However, as the IASB has updated the guidance on the definition of a lease (as well as the guidance on the combination and separation of contracts), lessors will also be affected by the new standard. At the very least, the new accounting model for lessees is expected to impact negotiations between lessors and lessees. Under TFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.
- **TFRIC 23, 'Uncertainty over income tax treatments'**; effective from annual periods beginning on or after 1 January 2019. This TFRIC clarifies how the recognition and measurement requirements of TAS 12 'Income taxes', are applied where there is uncertainty over income tax treatments. The TFRS IC had clarified previously that TAS 12, not TAS 37 'Provisions, contingent liabilities and contingent assets', applies to accounting for uncertain income tax treatments. TFRIC 23 explains how to recognise and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment. An uncertain tax treatment is any tax treatment applied by an entity where there is uncertainty over whether that treatment will be accepted by the tax authority. For example, a decision to claim a deduction for a specific expense or not to include a specific item of income in a tax return is an uncertain tax treatment if its acceptability is uncertain under tax law. TFRIC 23 applies to all aspects of income tax accounting where there is an uncertainty regarding the treatment of an item, including taxable profit or loss, the tax bases of assets and liabilities, tax losses and credits and tax rates.

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO CONSOLIDATED YEARS ENDED FINANCIAL STATEMENTS

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

- **TFRS 17, 'Insurance contracts';** effective from annual periods beginning on or after 1 January 2021. This standard replaces TFRS 4, which currently permits a wide variety of practices in accounting for insurance contracts. TFRS 17 will fundamentally change the accounting by all entities that issue insurance contracts and investment contracts with discretionary participation features.

Standards issued but not yet effective and not early adopted

Standards, interpretations and amendments to existing standards that are issued but not yet effective up to the date of issuance of the consolidated financial statements as of 31 December 2017 are as follows. The Group will make the necessary changes if not indicated otherwise, which will be affecting the consolidated financial statements and disclosures, when the new standards and interpretations become effective.

TFRS 15 Revenue from Contracts with Customers

In September 2016, POA issued TFRS 15 Revenue from Contracts with Customers. The new standard issued includes the clarifying amendments to TFRS 15 made by IASB in April 2016. The new five-step model in the standard provides the recognition and measurement requirements of revenue. The standard applies to revenue from contracts with customers and provides a model for the sale of some non-financial assets that are not an output of the entity's ordinary activities (e.g., the sale of property, plant and equipment or intangibles). Effective date for TFRS 15 is 1 January 2018, with early adoption permitted. Entities will transition to the new standard following either a full retrospective approach or a modified retrospective approach. The modified retrospective approach would allow the standard to be applied beginning with the current period, with no restatement of the comparative periods, but additional disclosures are required. The Group is in the process of assessing the impact of the standard on financial position or performance of the Group.

TFRS 9 Financial Instruments

In January 2016, POA issued the final version of TFRS 9 Financial Instruments. The final version of TFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. TFRS 9 is built on a logical, single classification and measurement approach for financial assets that reflects the business model in which they are managed and their cash flow characteristics. Built upon this is a forward-looking expected credit loss model that will result in more timely recognition of loan losses and is a single model that is applicable to all financial instruments subject to impairment accounting. In addition, TFRS 9 addresses the so-called 'own credit' issue, whereby banks and others book gains through profit or loss as a result of the value of their own debt falling due to a decrease in credit worthiness when they have elected to measure that debt at fair value. The Standard also includes an improved hedge accounting model to better link the economics of risk management with its accounting treatment. TFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted by applying all requirements of the standard. Alternatively, entities may elect to early apply only the requirements for the presentation of gains and losses on financial liabilities designated as FVTPL without applying the other requirements in the standard. Group is in the process of assessing the impact of the standard on financial position or performance of the Group.

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

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

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

2.4 Significant accounting judgments and estimates

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

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

- a) In the context of TAS 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 31 December 2017, since the Management believed the indicators demonstrating that the Group will have taxable profits in the foreseeable future- are reliable, deferred tax asset has been recognized.
- c) The Group determines warranty provision by considering the past warranty expenses and remaining warranty period per vehicle.
- d) The Group has made certain important assumptions based on experiences of technical personnel in determining useful economic lives of property, plant and equipment and intangible assets.

2.5 Summary of significant accounting policies

Group accounting

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

Subsidiaries

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

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

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO CONSOLIDATED YEARS ENDED FINANCIAL STATEMENTS

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

Disposal of a subsidiary

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

The table below sets out the subsidiaries of the Company and shows the total interest of the Company in these companies at 31 December 2017 and 2016:

Subsidiaries	2017		2016	
	Direct and indirect ownership (%)	Proportion of effective interest (%)	Direct and indirect ownership (%)	Proportion of effective interest (%)
Otokar Europe SAS	100.00	100.00	100.00	100.00
Otokar Land Systems LLC (*)	100.00	100.00	-	-

(*) Since financial activities of "Otokar Land System LLC" does not materially affect the financial statements, the investment was presented under as financial investments.

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 Group 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.

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

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

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).

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).

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO CONSOLIDATED YEARS ENDED FINANCIAL STATEMENTS

AT 31 DECEMBER 31, 2017 AND 2016

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

Inventories

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

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

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

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

Property, plant and equipment

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

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

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

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

Land improvements	25-30 years
Building	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.

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

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

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.

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.

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO CONSOLIDATED YEARS ENDED FINANCIAL STATEMENTS

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

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.

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

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

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.

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.

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

Operational leases

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

Warranty expenses

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

Financial instruments

Financial assets

The Group'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 Group has the positive intention and ability to hold to maturity. Financial assets which are ready for sale when considered for 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.

Cash and cash equivalents

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

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

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

Trade receivables

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

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

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

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

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

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

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.

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

Derivative financial instruments

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

Impairments in financial assets

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

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

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.

Recognition and derecognition of financial assets and liabilities

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

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

Foreign currency transactions

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

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

Earnings per share

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

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

Subsequent events

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

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

Impairment of non-financial assets

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

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.

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AT 31 DECEMBER 31, 2017 AND 2016

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

Offsetting

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

NOTE 3 - SEGMENT REPORTING

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

Since Chief Executive Decision Makers (composed of key management, board members, general manager and assistant general managers) do not monitor cost of sales, operating expenses and financial expenses, the products are only monitored based on revenue (Note 19). Thus, segment reporting is not performed.

NOTE 4 - CASH AND CASH EQUIVALENTS

	31 December 2017	31 December 2016
Banks		
- time deposits	214,933	26,059
- demand deposits	12,434	11,536
Cheques and notes receivable	1,513	918
Other	78	85
	228,958	38,598

As of 31 December 2017, TL 214,849 thousand of the total amount of time deposits amounting to TL 214,933 thousand is denominated in foreign currency and the annual effective interest rate is 1.00% and has a maturity of 4 days. The annual effective interest rate of the remaining TL 84 thousand is 8.25% and has a maturity of 4 days.

As of 31 December 2016, TL 17,479 thousand of the total amount of time deposits amounting to TL 26,059 thousand is denominated in foreign currency and the annual effective interest rate is 0.10% and has a maturity of 3 days. The annual effective interest rate of the remaining TL 8,580 thousand is 8.25% and has a maturity of 3 days.

Cheques and notes received consist of cheques and notes which are due as of balance sheet date and were sent to banks for collection.

As of 31 December 2017, the Group has restricted bank deposit amounting to TL 0,2 thousand (31 December 2016: TL 0,8 thousand).

NOTE 5 - FINANCIAL INVESTMENTS

The Company has a subsidiary named "Otokar Land Systems LLC" with paid in capital of AED 50,000 (approximately TL 41 thousand), established in United Arab Emirates for the purpose of organizing export activities and increasing export sales. Since Otokar Land Systems LLC's 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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NOTE 6 - BORROWINGS

31 December 2017	Maturities	Annual effective interest rate (%)	TL
Short-term bank borrowings (*)			
Denominated in TL (**)	2 January 2018	0.00	42
Payables from factoring activities	21 February 2018- 22 March 2018	16.38-18.01	429,206
			429,248

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

Denominated in TL	12.60-14.44	84,410
		84,410

(*) Bearing fixed interest rate.

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

31 December 2017	Maturities	Annual effective interest rate (%)	TL
Long-term bank borrowings (*) (**)			
Denominated in TL	1 February 2019- 20 February 2019	14.27 - 14.44	190,000
			190,000

(*) Bearing fixed interest rate

(**) Weighted average maturity days of long-term borrowings are 405 days.

31 December 2016	Maturities	Annual effective interest rate (%)	TL
Short-term bank borrowings (*)			
Denominated in TL (***)	2 January 2017	-	3
			3

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

Denominated in TL	12.60-14.65	4,178
Denominated in EUR	2.90	491
		4,669

	Maturities	Annual effective interest rate (%)	TL
Long-term bank borrowings (*) (**)			
Denominated in TL	15 August 2018 – 12 November 2018	12.60 - 14.65	351,249
Denominated in EUR	28 September 2018	2.90	74,198
			425,447

(*) Bearing fixed interest rate.

(**) Weighted average maturity days of long-term borrowings are 632 days.

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NOTE 6 - BORROWINGS (Continued)

As of 31 December 2017, the Group has not provided any guarantees for the borrowings (31 December 2016: None).

The movement of the borrowings for the years ended 31 December 2017 and 2016 are as follows:

	2017	2016
1 January	430,119	615,278
Borrowing received during the period	1,119,456	854,569
Principal payments (-)	(893,393)	(1,065,453)
Change in interest accruals	8,615	5,918
Change in exchange rates	38,861	19,807
31 December	703,658	430,119

NOTE 7 - DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments consist of the forward contracts which are entered in order to hedge foreign currency risk arising from Group's foreign currency sales.

	Contract amount	Current period contract maturity	Fair value assets
31 December 2017:			
Forward transactions	259,323	4 January 2018- 25 January 2018	1,325
Short-term derivative financial instruments	259,323		1,325
Total derivative financial instruments	259,323		1,325

	Contract amount	Current period contract maturity	Fair value assets
31 December 2016:			
Forward transactions	25,397	12 January 2017	52
Short-term derivative financial instruments	25,397		52
Total derivative financial instruments	25,397		52

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NOTE 8 - TRADE RECEIVABLES AND PAYABLES

Trade receivables

	31 December 2017	31 December 2016
Trade receivables, net	268,152	258,579
Notes receivables, net	181,506	129,552
	449,658	388,131
Less: provision for doubtful receivables	(33,985)	(28,910)
Short-term trade receivables	415,673	359,221
Trade receivables from related parties (Note 27)	29,656	29,437
Short-term trade receivables	445,329	388,658
Long-term trade receivables, net	-	-
Long-term notes receivable, net	10,235	9,174
Long-term trade receivables	10,235	9,174

As of 31 December 2017, the average maturity of trade receivables is between 60-90 days (excluding notes receivables) (31 December 2016 60-90 days).

As of 31 December 2017 and 2016, the fair values of trade receivables approximate to their carrying values due to short term maturity of those receivables.

Guarantees received for trade receivables

Receivables of the Group are mainly composed of minibus and bus sales to dealers and trailer and armored vehicle sales. As of 31 December 2017, the total trade receivable from dealers amounting to TL 157,074 thousand (31 December 2016: TL 79,884 thousand), after provision provided for doubtful receivables, has been secured by mortgages and guarantees at the amount of TL 193,792 thousand (31 December 2016: TL 134,631 thousand). The Group manages the credit risk of remaining balance in the manner described in the Credit Risk section of Note 28 to the consolidated financial statements.

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NOTE 8 - TRADE RECEIVABLES AND PAYABLES (Continued)

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

31 December 2017	Trade receivables
1- 30 day past due	-
1- 3 month past due	-
3- 12 month past due	-
1- 5 year past due	236
Over 5 years past due	-
Total	236
Amount secured with guarantees	236
31 December 2016	Trade receivables
1- 30 day past due	-
1- 3 month past due	-
3- 12 month past due	-
1- 5 year past due	219
Over 5 years past due	-
Total	219
Amount secured with guarantees	219

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

The movement of the provision for doubtful receivables for the years ended 31 December 2017 and 2016 are as follows:

	2017	2016
As of 1 January	28,910	25,973
Collections	(9)	(549)
Currency translation differences	232	153
Exchange differences	4,805	3,237
Increase during the year	47	96
31 December	33,985	28,910

Trade payables

	31 December 2017	31 December 2016
Trade payables, net	47,667	389,799
Notes payables, net	356	329
Short-term other trade payables	48,023	390,128
Trade payables to related parties (Note 27)	14,094	11,017
Short-term trade payables	62,117	401,145

As of 31 December 2017, average payment term for trade payables is 45-60 days (31 December 2016: 45-60 days).

As of 31 December 2017 and 2016, the fair values of trade payables approximate to their carrying values due to short-term maturity of those payables.

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NOTE 9 - OTHER RECEIVABLES AND PAYABLES

Other short-term receivables

	31 December 2017	31 December 2016
Deposits and guarantees given	67	8
Due from personnel	1	12
Total	68	20

Other long-term receivables

	31 December 2017	31 December 2016
Deposits and guarantees given	281	234
Total	281	234

Other short-term payables

	31 December 2017	31 December 2016
Other miscellaneous payables	42,549	37,958
Total	42,549	37,958

As explained in Note 15, TL 36,169 thousand (31 December 2016: TL 36,169 thousand of other miscellaneous payables was collected but not credited to statement of profit or loss, since the lawsuit in relation to deductible corporate tax from Research and Development expenses has not been finalised.

NOTE 10 - INVENTORIES

	31 December 2017	31 December 2016
Raw material	163,088	182,574
Semi-finished goods	14,140	73,212
Finished goods	83,286	116,973
Merchandise goods	75,478	67,684
Goods in transit	77,764	54,133
Impairment for inventories (*)	(700)	(706)
Total	413,056	493,870

(*) TL 155 thousand of impairment is related to finished goods (31 December 2016: TL 100 thousand) and TL 545 thousand is related to merchandises (31 December 2016: TL 606 thousand). The impairment has been accounted for under cost of sales.

The movements of impairment for inventories in 2017 and 2016 are as follows:

	2017	2016
1 January	(706)	(795)
Reversal of provision	6	89
31 December	(700)	(706)

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NOTE 11 - DUE FROM CUSTOMERS ON CONTRACT WORKS

Receivables from uncompleted contracts are TL 312,030 thousand as of 31 December 2017 (31 December 2016: TL 245,830 thousand) after offsetting with short-term advances received.

As of 31 December 2017, the short-term advances received by the Group and deferred revenues related with ongoing projects is none in the consolidated financial statements (31 December 2016: TL 32,407 thousand).

NOTE 12 - PROPERTY, PLANT AND EQUIPMENT

Movements of property, plant and equipment and related accumulated depreciation for the years ended 31 December 2017 and 2016 are as follows:

	1 January 2017	Additions	Currency translation differences	Disposals	Transfers	31 December 2017
Cost						
Land	37,457	-	-	-	-	37,457
Land improvements	11,970	10	-	-	375	12,355
Buildings	60,633	18	-	-	78	60,729
Machinery and equipment	106,176	4,479	128	(918)	751	110,616
Motor vehicles	9,613	1,315	-	(1,320)	-	9,608
Furniture and fixtures	33,986	4,132	42	(190)	968	38,938
Leasehold improvements	2,116	15	-	-	-	2,131
Construction in process	696	3,134	-	-	(2,376)	1,454
	262,647	13,103	170	(2,428)	(204)	273,288
Accumulated depreciation						
Land improvements	(7,479)	(483)	-	-	-	(7,962)
Buildings	(37,501)	(7,150)	-	-	-	(44,651)
Machinery and equipment	(86,576)	(4,813)	(64)	897	-	(90,556)
Motor vehicles	(5,633)	(661)	-	891	-	(5,403)
Furniture and fixtures	(18,839)	(3,212)	(31)	171	-	(21,911)
Leasehold improvements	(1,517)	(279)	-	-	-	(1,796)
	(157,545)	(16,598)	(95)	1,959	-	(172,279)
Net book value	105,102					101,009

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NOTE 12 - PROPERTY, PLANT AND EQUIPMENT (Continued)

Movements in property, plant and equipment and related accumulated depreciation for the year ended 31 December 2016 are as follows:

	1 January 2016	Additions	Currency translation differences	Disposals	Transfers	31 December 2016
Cost						
Land	37,457	-	-	-	-	37,457
Land improvements	11,953	7	-	-	10	11,970
Buildings	60,540	-	-	-	93	60,633
Machinery and equipment	99,678	5,146	85	-	1,267	106,176
Motor vehicles	8,428	2,401	-	(1,216)	-	9,613
Furniture and fixtures	28,601	4,608	25	-	752	33,986
Leasehold improvements	2,099	14	-	(186)	189	2,116
Construction in process	964	2,049	-	-	(2,317)	696
	249,720	14,225	110	(1,402)	(6)	262,647
Accumulated depreciation						
Land improvements	(6,826)	(653)	-	-	-	(7,479)
Buildings	(34,713)	(2,788)	-	-	-	(37,501)
Machinery and equipment	(81,637)	(4,906)	(33)	-	-	(86,576)
Motor vehicles	(5,148)	(706)	-	221	-	(5,633)
Furniture and fixtures	(15,938)	(2,887)	(14)	-	-	(18,839)
Leasehold improvements	(1,325)	(304)	-	112	-	(1,517)
	(145,587)	(12,244)	(47)	333	-	(157,545)
Net book value	104,133					105,102

Allocation of depreciation and amortization expenses of property, plant and equipment and intangible assets for the years ended at 31 December 2017 and 2016 are as follows:

	31 December 2017	31 December 2016
Research and development expenses	43,528	34,797
Costs related to uncompleted contracts	6,806	3,085
Cost of goods sold	5,476	5,200
Development projects in process	1,987	1,906
Depreciation on inventories	1,092	916
General administrative expenses	1,692	1,763
Selling and marketing expenses	1,432	1,479
Currency translation differences	95	47
Total	62,108	49,193

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NOTE 13 - INTANGIBLE ASSETS

Movements of intangible assets and related accumulated amortisation for the years ended 31 December 2017 and 2016 are as follows:

	1 January 2017	Additions	Currency translation differences	Disposals	Tranfers	31 December 2017
Cost						
Other intangible assets	18,028	1,999	-	-	204	20,231
Development costs	297,383	-	-	(7,033)	55,353	345,703
Developments projects in progress	38,079	83,957	-	-	(55,353)	66,683
	353,490	85,956	-	(7,033)	204	432,617
Accumulated amortization						
Other intangible assets	(14,078)	(1,887)	-	-	-	(15,965)
Development costs	(157,480)	(43,528)	-	4,220	-	(196,788)
	(171,558)	(45,415)	-	4,220	-	(212,753)
Net book value	181,932					219,864

The Group has capitalised TL 4,517 thousand (31 December 2016: TL 3,324 thousand) of its finance expense in relation to qualifying assets in 2017.

The movements in intangible assets and related amortization for the year ended 31 December 2016 are as follows:

	1 January 2016	Additions	Currency translation differences	Disposals	Transfers	31 December 2016
Cost:						
Other intangible assets	16,232	1,791	-	-	5	18,028
Development costs	242,620	-	-	-	54,763	297,383
Development projects in progress	31,224	61,618	-	-	(54,763)	38,079
	290,076	63,409	-	-	5	353,490
Accumulated amortization:						
Other intangible assets	(11,973)	(2,105)	-	-	-	(14,078)
Development costs	(122,683)	(34,797)	-	-	-	(157,480)
	(134,656)	(36,902)	-	-	-	(171,558)
Net book value	155,420					181,932

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NOTE 14 - GOVERNMENT GRANTS AND INCENTIVES

	31 December 2017	31 December 2016
Short-term	1,940	2,156
Long-term	1,441	3,382
Total	3,381	5,538

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

NOTE 15 - PROVISIONS, CONTINGENT ASSETS AND LIABILITIES

Short-term provisions

	31 December 2017	31 December 2016
Provision for other costs	324,431	340,870
Warranty provision	53,065	31,085
Short-term provisions for employee benefits	9,286	8,491
Other	17,153	6,698
Total	403,935	387,144

Long-term provisions

	31 December 2017	31 December 2016
Warranty provision	-	10,300
	-	10,300

Provision for other costs

Includes costs incurred by the Group related to tank project, which were not charged yet, and costs incurred by the subcontractors that will be invoiced to the Group 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:

	2017	2016
1 January	340,870	233,120
Increase/(decrease) during the year	(34,837)	65,407
Foreign currency valuation	18,398	42,343
31 December	324,431	340,870

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

Warranty provision

The Group provides 2 years of warranty for 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:

	2017	2016
1 January	41,385	35,831
Additional provision	55,462	33,767
Claim payments	(43,782)	(28,213)
31 December	53,065	41,385

Commitments and contingencies

As of 31 December 2017 and 2016, the tables which represent the position of guarantees, pledges and mortgages are as follows:

	31 December 2017	31 December 2016
a. Total amount of guarantees, pledges and mortgages given the name of legal entity	1,853,700	1,614,606
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	1,853,700	1,614,606

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

	31 December 2017		31 December 2016	
	Original currency	TL equivalent	Original currency	TL equivalent
USD	397,404	1,498,967	285,635	1,005,208
EUR	55,818	252,047	112,796	418,461
TL	102,686	102,686	189,755	189,755
GBP	-	-	274	1,182
		1,853,700		1,614,606

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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 2017	31 December 2016
Guarantee letters given		
Undersecretariat for Defense Industries	1,090,079	1,092,184
Other	763,621	522,422
	1,853,700	1,614,606

Guarantee letters

a) Guarantees given as of 31 December 2017 and 2016 are as follows:

	31 December 2017	31 December 2016
Bank letters of guarantee (*)	1,853,700	1,614,606
	1,853,700	1,614,606

(*) Bank letters of guarantee amounting to TL 938,865 are given to Secretariat of Ministry of Defense for Altay Project (31 December 2016: TL 875,733)

b) Guarantees received as of 31 December 2017 and 31 December 2016 are as follows:

	31 December 2017	31 December 2016
Bank letters of guarantee (**)	651,824	551,490
Guarantee notes	14,550	15,898
Mortgages received	20	20
	666,394	567,408

(**) Bank letters of guarantee amounting to TL 340,829 are obtained from the sub-contractors for Altay Project (31 December 2016: TL 317,195).

Contingent asset

The legal case related to tax deduction for the research and development activities in 2011-2012-2013-2014 was concluded in favor of the Group and the same cases is still in progress at appeal phase. Total amount of cases at the appeal phase amount to TL 36,169. The amount of the legal case for 2015 is TL 4,557. The case was also concluded in favor of the Group but the appeal phase is still in progress.

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NOTE 16 - EMPLOYEE BENEFITS

	31 December 2017	31 December 2016
Provision for employment termination benefits	31,693	28,088
Provision for unused vacation	9,286	8,491
Total	40,979	36,579

Employment termination benefits

The amount payable consists of one month's salary limited to a maximum of TL 4,732.48 in full for each year of service as of 31 December 2017 (31 December 2016: TL 4,297.21 in full).

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

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

The principal assumption is that the maximum liability for each year of service will increase in line with inflation. Thus, the discount rate applied represents the real rate free of expected effects of inflation. The termination indemnity ceiling is revised semi-annually and the ceiling amounting to TL 5,001.76 in full (1 January 2017: TL 4,426.16 in full), which is effective from 1 January 2018, has been taken into consideration in calculation of retirement benefit provision in the consulate.

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

	31 December 2017	31 December 2016
Net discount rate (%)	4.95	4.50
Turnover rate to estimate the probability of retirement (%)	97.28	97.50

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

	2017	2016
1 January	28,088	22,321
Interest expense	2,542	2,020
Charge for the period	6,400	5,445
Remeasurement differences	(136)	1,409
Payments	(5,201)	(3,107)
31 December	31,693	28,088

Provision for unused vacation

The movements of provision for unused vacation are as follows:

	2017	2016
1 January	8,491	6,652
Charge for the period, net (Note 21)	795	1,839
As of 31 December	9,286	8,491

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

a) Prepaid expenses:

	31 December 2017	31 December 2016
Advances given	185,594	171,436
Prepaid expenses	4,559	5,330
Total	190,153	176,766

The advances given consist mainly of the amounts given for raw material purchases.

b) Other current assets:

	31 December 2017	31 December 2016
Value added tax receivables	39,832	105,448
Other	800	690
	40,632	106,138

c) Deferred revenues:

Deferred revenues - short term

	31 December 2017	31 December 2016
Advances received	9,674	175,322
Deferred maintenance revenues	9,437	25,302
Other deferred income	1,973	-
	21,084	200,624

Deferred revenues - long term

	31 December 2017	31 December 2016
Advance receipts (*)	404,513	-
Other deferred income (**)	26,067	-
Deferred maintenance revenues	-	7,754
	430,580	7,754

(*) The pre-advance received from Otokar Land Systems LLC's subsidiary for the United Arab Emirates (BAE) Project, which was publicly disclosed to the public on 20 February 2017.

(**) Includes deferred income from the sale of license rights to Otokar Land Systems LLC for vehicles to be produced under the BAE Project.

d) Employee benefits obligation:

	31 December 2017	31 December 2016
Payables to employees	11,764	10,365
Social security payables	6,197	6,324
Taxes and funds payable	6,333	4,751
	24,294	21,440

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

e) Other current liabilities:

	31 December 2017	31 December 2016
Taxes and funds payable	1,709	1,403
Deferred special consumption tax	444	9,273
Other	589	524
	2,742	11,200

NOTE 18 - EQUITY

Share capital

As of 31 December 2017 and 2016, the principal shareholders and their respective shareholding percentages are as follows:

	31 December 2017		31 December 2016	
	TL	(%)	TL	(%)
Koç Holding A.Ş.	10,723	44.68	10,723	44.68
Ünver Holding A.Ş.	5,955	24.81	5,955	24.81
Other	7,322	30.51	7,322	30.51
Total	24,000		24,000	100.00
Inflation adjustment on equity items	52,743		52,743	
Total	76,743		76,743	

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 used to absorb losses in the event that the general reserve is exhausted.

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

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NOTE 18 - EQUITY (Continued)

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

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

As of 31 December 2017, in the financial statements of the Group 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 TL 90,640 (31 December 2016: TL 69,725) and TL 49,977 (31 December 2016: TL 46,132), respectively. Current year net income of the Company in statutory books is TL 37,623 (31 December 2016: TL 62,303), other reserves to be distributed as dividend (without being subject to additional taxation) is TL 87,627 (31 December 2016 – TL 90,496). In addition, in statutory books there is TL 16,225 of inflation adjustment and TL 11,040 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 37,623 (31 December 2016: TL 62,303). As of report date, there is no decision of dividend distribution related to 2017.

In accordance with the Communiqué, as of 31 December 2017 and 2016, the details of equity, based on which the dividend will be distributed is as follows:

	31 December 2017	31 December 2016
Paid-in share capital	24,000	24,000
Inflation adjustment on equity items	52,743	52,743
Restricted reserves	59,895	54,015
Accumulated other comprehensive income and expense that is not subject to reclassification to income or loss	(4,880)	(4,986)
Accumulated other comprehensive income and expense that is subject to reclassification to income or loss	2,396	1,329
Retained earnings		
- Extraordinary reserves	39,027	35,182
- Inflation adjustments on legal reserves	10,950	10,950
Net income for the year	99,423	69,725
Total	283,554	242,958

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NOTE 18 - EQUITY (Continued)

As of 31 December 2017 and 2016, the restated amounts and the equity restatement differences of the aforementioned nominal values are as follows:

31 December 2017

	Historical value	Inflation adjustments on equity items	Restated value
Share capital	24,000	52,743	76,743
Legal reserves	59,895	10,950	70,845
Total	83,895	63,693	147,588

31 December 2016

	Historical value	Inflation adjustments On equity items	Restated value
Share capital	24,000	52,743	76,743
Legal reserves	54,015	10,950	64,965
Total	78,015	63,693	141,708

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

	31 December 2017	31 December 2016
Legal reserves	59,895	54,015
Extraordinary reserves	87,093	90,496
Total	146,988	144,511

Dividends distributed during the year based on previous year's net income per statutory financial statements

Dividend paid per share (piaster)

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

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NOTE 19 - REVENUE AND COST OF SALES

Net sales

	1 January - 31 December 2017	1 January - 31 December 2016
Domestic sales	1,241,020	1,197,376
Export sales	552,285	446,885
Gross Sales	1,793,305	1,644,261
Less: sales discounts and returns	(8,033)	(9,746)
Net sales	1,785,272	1,634,515

Sales of the Group for the years ended 31 December 2017 and 2016 in terms of the products are as follows:

	1 January - 31 December 2017	1 January - 31 December 2016
Commercial vehicle	701,723	639,776
Armored vehicle	799,089	676,159
Accrued earnings related to construction contracts	79,877	158,226
Other sales (*)	204,583	160,354
	1,785,272	1,634,515

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

Cost of sales

	1 January - 31 December 2017	1 January - 31 December 2016
Cost of finished goods sold	(1,208,644)	(1,155,427)
Cost of merchandise goods sold	(105,002)	(69,243)
	(1,313,646)	(1,224,670)

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

	1 January -31 December 2017	1 January - 31 December 2016
Sales and marketing expenses	(234,662)	(189,513)
General administrative expenses	(69,524)	(63,132)
Research and development expenses	(43,644)	(36,176)
	(347,830)	(288,821)

NOTE 21 - EXPENSES BY NATURE

	1 January -31 December 2017	1 January - 31 December 2016
Cost of raw material and consumption goods	931,349	1,026,749
Change in finished and semi-finished goods	92,758	(26,270)
Cost of merchandises sold	119,446	69,242
Depreciation and amortization expense	60,026	47,240
Personnel expenses	204,816	188,584
Operational expenses	31,713	29,940
Administrative expenses	50,227	50,857
Warranty provision expense (Note 15)	55,462	33,767
Transportation, distribution and storage expenses	20,268	18,359
Advertising, promotion and promotion costs	19,435	15,561
Other expenses	75,976	59,461
Total	1,661,476	1,513,490

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NOTE 21 - EXPENSES BY NATURE (Continued)

The breakdown of personnel expenses for the years 2017 and 2016 is as follows:

	1 January -31 December 2017	1 January - 31 December 2016
Based on the account it's recorded:		
Cost of sales and inventories on hand	94,162	93,906
Costs related to uncompleted contracts	29,829	25,669
Capitalized development expenditures	35,817	27,761
General administrative expenses	28,121	24,631
Sales and marketing expenses	52,589	42,999
Research and development expenses	115	1,379
	240,633	216,345
By nature:		
Wages and salaries	186,625	165,115
Social security premiums	24,427	22,862
Other social benefits	17,807	18,027
Provision for employment termination benefits	9,082	7,578
Provision for vacation pay liability	795	1,839
Other	1,897	924
	240,633	216,345

NOTE 22 - OTHER OPERATING INCOME AND EXPENSES

	1 January -31 December 2017	1 January - 31 December 2016
Other operating income		
Foreign exchange gains on operating activities	375,918	390,894
Gain on forward transactions	37,756	7,035
Revenue from charge of due date receivables	20,780	9,778
Incentives income	2,156	2,164
Other	12,054	13,038
Total	448,664	422,909
Other operating expenses		
Foreign exchange loss on operating activities	(297,324)	(364,767)
Loss on forward transactions	(44,338)	(11,190)
Provision for doubtful receivables(Note 8)	(4,852)	(3,333)
Other	(232)	-
Total	(346,746)	(379,290)

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NOTE 23 - FINANCIAL INCOME

	1 January -31 December 2017	1 January - 31 December 2016
Interest income from time deposits	1,050	527
Foreign exchange gains on deposits	13,498	6,547
Foreign exchange gains on bank borrowings	-	8,443
Total	14,548	15,517

NOTE 24 - FINANCIAL EXPENSES

	1 January – 31 December 2017	1 January – 31 December 2016
Interest expense on bank borrowings	(95,782)	(77,758)
Foreign exchange losses on deposits	(15,873)	(5,981)
Foreign exchange losses on bank borrowings	(38,861)	(28,250)
Other	(290)	(178)
Total	(150,806)	(112,167)

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% (2016 - 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 1 April 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 2017 and 2016.

As a result of its research and development expenditures made in 2017 amounting to TL 105,370 (2016: TL 48,655). The Group has utilized research and development incentives at 100% deduction without any withholding tax. The Company has an R&D center certificate.

As of 31 December 2017 and 2016, income tax payables are presented net of prepaid taxes in the balance sheet as follows:

	31 December 2017	31 December 2016
Income tax payable	1,277	572
Prepaid taxes (-)	(1,277)	(572)
Total	-	-

The breakdown of total tax expense for the years ended 31 December 2017 and 2016 are as follows:

	31 December 2017	31 December 2016
Current tax charge	(66)	1,387
Deferred tax income / expense reflected in profit or loss		
Charged to profit for the period	8,783	258
Charged to other comprehensive income	(30)	282
Total	8,687	1,927

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

	1 January - 31 December 2017	1 January - 31 December 2016
Profit before tax	90,706	68,080
Income tax charge at effective tax rate 20%	(18,141)	(13,616)
Effect of exemptions and incentives	33,934	9,731
Other differences	(7,106)	5,812
Total	8,687	1,927

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NOTE 25 - TAX ASSETS AND LIABILITIES (Continued)

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

As of 31 December 2017 and 2016, 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 2017	31 December 2016	31 December 2017	31 December 2016
Incentives from research and development activities (*)	123,033	66,991	27,607	13,398
Property, plant and equipment	(7,723)	(10,263)	1,937	1,429
Intangible assets	(53,814)	(44,360)	(10,763)	(8,872)
Deferred financial expenses	(453)	(1,278)	(100)	(256)
Inventories	996	710	213	142
Warranty provision	53,065	31,085	11,260	6,217
Provision for employment termination benefits	31,693	28,088	6,339	5,618
Deferred financial income	1,044	3,291	230	658
Other provisions	23,052	13,917	4,851	2,783
Deferred maintenance income	9,437	33,055	2,076	6,611
Due from customers on contract works	9,732	50,621	2,141	10,124
Other	25,566	3	1,355	1
Deferred tax assets, net			46,606	37,853

(*) The Company's incentive income from investments with incentive certificate are subject to corporate income tax exemption tax at reduced rates being effective starting from the period that investment is partially or entirely operated and till the period that investment reaches the contribution amount. In this context, as of 31 December 2017, the tax advantage of TL 123.033 (31 December 2016: TL 66.991), which the Company will use in the foreseeable future, has been recognized in the financial statements as deferred tax asset. The deferred tax asset on tax advantage carried from 2015 and before was not been calculated since the case regarding the use of tax benefit of TL 133.194 for aforementioned years is still going on.

The movement of deferred tax asset for the years ended 31 December 2017 and 2016 are as follows:

	2017	2016
1 January	37,853	37,313
Deferred tax income		
Charged to profit for the period	8,783	258
Charged to other comprehensive income	(30)	282
31 December	46,606	37,853

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NOTE 26 - EARNINGS PER SHARE

Earnings per share are calculated by dividing net profit by the weighted average number of shares that have been outstanding during the period concerned.

Companies can increase their share capital by making a pro rata distribution of shares to existing shareholders without consideration for amounts resolved to be transferred to share capital from retained earnings. For the purpose of the earnings per share calculation such Bonus Share issues are regarded as stock dividends. Dividend payments, which are immediately reinvested in the shares of the Company, are regarded similarly.

Earnings per main share are determined by dividing net income of the shareholders by the weighted average number of shares that have been outstanding during the related year concerned.

	31 December 2017	31 December 2016
Net income attributable to shareholders (TL)	99,423	69,725
Weighted average number of issued shares	24,000,000,000	24,000,000,000
Earnings per share (Piastre)	0.414	0,291

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 2017 and 2016:

Due from related parties	31 December 2017	31 December 2016
Ram Dış Ticaret A.Ş. (1) (*)	28,958	29,335
Ford Otosan A.Ş. (1), (2)	698	67
Türk Traktör ve Ziraat Makineleri A.Ş. (1)	-	35
Total	29,656	29,437

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

Due to related parties	31 December 2017	31 December 2016
Koç Holding A.Ş. (2)	5,353	4,609
Ram Dış Ticaret A.Ş. (1)	2,996	1,245
Zer Merkezi Hizmetler A.Ş. (1)	2,974	1,965
Setur Servis Turistik A.Ş. (1)	618	337
Otokoç Otomotiv Tic. ve San. A.Ş. (1)	596	409
Ford Otosan A.Ş. (1), (2)	450	90
Eltek Elektrik Enerji İth. İhr. Top. Tic. A.Ş. (1)	378	436
Koç Sistem Bilgi ve İletişim Hiz. A.Ş. (1)	213	780
Opet Petrolcülük A.Ş. (1)	150	118
Ram Sigorta Aracılık Hiz. A.Ş. (1)	133	58
Opet Fuchs Madeni Yağ A.Ş. (1)	106	614
Other (1)	127	356
Total	14,094	11,017

(1) Related parties of the parent company

(2) Shareholder

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NOTE 27 - RELATED PARTY DISCLOSURES (Continued)

Advances received from related parties	31 December 2017	31 December 2016
Otokar Land Systems LLC's subsidiary (Note 17)	404.513	-
	404.513	-
Deferred revenue from related parties	31 December 2017	31 December 2016
Otokar Land Systems LLC (Note 17)	28.040	-
	28.040	-

ii) Major sales and purchase transactions with related parties are as follows:

Product sales and service revenue	1 January – 31 December 2017	1 January – 31 December 2016
Ram Dış Ticaret A.Ş. (1) (*)	228,849	169,278
Ford Otosan A.Ş. (1), (2)	61	155
Otokoç Otomotiv Tic. ve San. A.Ş. (1)	50	1
Tofaş Türk Otomobil Fabrikası A.Ş.	22	-
Other (1)	1	321
Total	228,983	169,755

(*) 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 2017	1 January – 31 December 2016
Koç Sistem Bilgi ve İletişim Hizm. A.Ş. (1)	2,802	2,670
Zer Merkezi Hizmetler A.Ş. (1)	486	331
Otokoç Otomotiv Tic. ve San. A.Ş. (1)	281	60
Other (1)	62	75
Total	3,631	3,136

Inventories purchased	1 January – 31 December 2017	1 January – 31 December 2016
Zer Merkezi Hizmetler A.Ş. (1)	27,773	20,853
Ram Dış Ticaret A.Ş. (1)	4,345	2,314
Opet Petrolcülük A.Ş. (1)	3,192	2,026
Arçelik Pazarlama A.Ş. (1)	3,022	-
Akpa Dayanımlı Tük. Paz. A.Ş. (1)	2,328	2,258
Opet Fuchs Madeni Yağ A.Ş. (1)	2,246	2,330
Ford Otosan A.Ş. (1), (2)	487	119
Other (1)	387	156
Total	43,780	30,056

(1) Related parties of the parent company

(2) Shareholder

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NOTE 27 - RELATED PARTY DISCLOSURES (Continued)

Services purchased	1 January – 31 December 2017	1 January – 31 December 2016
Ram Dış Ticaret A.Ş. (1)	17,164	27,266
Koç Holding A.Ş. (2) (*)	8,170	13,275
Setur Servis Turistik A.Ş. (1)	7,985	6,455
Eltek Elektrik Enerji İth. İhr. Top. Tic. A.Ş. (1)	4,163	4,576
Otokoç Otomotiv Tic. ve San. A.Ş. (1)	3,938	2,831
Ram Sigorta Aracılık Hizm. A.Ş. (1) (**)	3,605	2,035
Koç Sistem Bilgi ve İlt. Hizm. A.Ş. (1)	3,059	2,990
Other (1)	1,902	932
Total	49,986	60,360

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

(**) It includes paid and accrued premium as of 31 December 2017 in accordance with insurance policies signed between insurance companies via Ram Sigorta Aracılık Hizmetleri A.Ş. which is an insurance agency.

Banks deposits	31 December 2017	31 December 2016
Yapı ve Kredi Bankası A.Ş. (1)		
- Time deposits	1,821	20,761
- Deposit deposits	3	14
Total	1,824	20,775

Checks and notes in collection	31 December 2017	31 December 2016
Yapı ve Kredi Bankası A.Ş. (1)	4,119	6,977
Total	4,119	6,977

(1) Related parties of the parent company

(2) Shareholder

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NOT 27 - RELATED PARTY DISCLOSURES (Continued)

For the years ended 31 December 2017 and 2016, financial income and expense with related parties:

	1 January - 31 December 2017	1 January - 31 December 2016
Foreign exchange gains		
Ram Dış Ticaret A.Ş. (1)	25,321	6,586
Yapı ve Kredi Bankası A.Ş. (1)	8,650	1,976
Other(1)	82	233
Total	34,053	8,795

	1 January - 31 December 2017	1 January - 31 December 2016
Foreign exchange loss		
Yapı Kredi Faktoring A.Ş. (1)	12,678	5,668
Ram Dış Ticaret A.Ş. (1)	9,549	5,358
Other (1)	5,881	3,146
Total	28,108	14,172

For the years ended 31 December 2017 and 2016, financial income and expense with related parties:

	1 January - 31 December 2017	1 January - 31 December 2016
Interest income		
Yapı ve Kredi Bankası A.Ş. (1)	183	136
Total	183	136

	1 January - 31 December 2017	1 January - 31 December 2016
Interest expense		
Yapı ve Kredi Bankası A.Ş. (1)	742	4,784
Total	742	4,784

(1) Related parties of the parent company

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NOTE 27 - RELATED PARTY DISCLOSURES (Continued)

Benefits to key management

Salaries and similar benefits provided to the executive management by the Company for the year ended 31 December 2017 is amounted to TL 14,762 (31 December 2016: TL 12,459). 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 Group is exposed to a variety of financial risks, including the effects of changes in debt and equity market prices, foreign currency exchange rates and interest rates. These risks are market risk (including foreign currency risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the financial performance of the Group.

Credit risk

Ownership of financial assets involves the risk that counterparties may be unable to meet the terms of their agreements. These risks are monitored by limiting the aggregate risk from any individual counterparty (excluding related parties) and by receiving guarantees from customers when considered necessary. Credit risk of the Group mainly arises from trade receivables. The Group manages this risk that may arise from its dealers or from other customers by restricting the credit limits determined for the dealers according the amount of guarantees received, by receiving advance payments or by receiving the pledge of ownership of the vehicles sold. Credit limits are regularly monitored by the Group and the customers' credit quality are regularly evaluated by considering the customer's financial position, past experiences and other factors. All foreign sales are made after receiving confirmed letters of credit. Military vehicle sales are made to domestic or foreign governmental institutions or to companies acting as agents to these institutions; accordingly, the Group does not anticipate any collection risk related to military vehicle sales. Trade receivables are evaluated by management based on their past experiences and current economic condition, and are presented in financial statements net of provision for doubtful receivables (Note8).

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

	Receivables			
	Trade receivables	Other	Bank deposits	Derivative instruments
31 December 2017				
Maximum credit risk exposure as of reporting date (A+B+C+D+E) (1)	455,564	349	227,367	-
- Maximum risk secured by guarantee (2)	(260,836)	-	-	-
A. Net book value of financial assets neither overdue nor impaired	454,998	349	227,367	-
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	236	-	-	-
D. Net book value of impaired assets	330	-	-	-
- Overdue (gross book value)	34,315	-	-	-
- Impairment (-) (Note 8)	(33,985)	-	-	-
- Net value under guarantee	349	-	-	-
- 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 2016				
Maximum credit risk exposure as of reporting date (A+B+C+D+E) (1)	397,832	254	37,595	-
- Maximum risk secured by guarantee (2)	(189,881)	-	-	-
A. Net book value of financial assets neither overdue nor impaired	394,758	254	37,595	-
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	219	-	-	-
D. Net book value of impaired assets	2,855	-	-	-
- Overdue (gross book value)	31,765	-	-	-
- Impairment (-) (Note 8)	(28,910)	-	-	-
- Net value under guarantee	1,170	-	-	-
- 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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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 are managed by maintaining the availability of adequate committed funding lines from high quality lenders.

As of 31 December 2017 and 2016, maturities of gross trade payables and financial liabilities are as follows:

31 December 2017

Maturities per agreements	Book value	Total cash outflow per agreements (=I+II+III+IV)	Less than 3 month (I)	Between 3-12 month (II)	Between 1-5 years (III)	Over 5 years (IV)
Non-derivative financial liabilities						
Bank loans	703,658	757,936	457,848	107,090	192,998	-
Trade payables	62,117	62,579	62,223	356	-	-
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	42,549	42,549	42,549	-	-	-
Other short-term liabilities	2,742	2,742	2,742	-	-	-
Expected (or maturities per agreement)	Book value	Total expected cash outflow	Less than 3 month (I)	Between 3-12 month (II)	Between 1-5 years (III)	Over 5 years (IV)
Derivative financial liabilities (net)	1,325	1,325	1,325	-	-	-
Derivative cash inflows	260,648	260,648	260,648	-	-	-
Derivative cash outflows	(259,323)	(259,323)	(259,323)	-	-	-

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

31 December 2016

Maturities per agreements	Book value	Total cash outflow per agreements (=I+II+III+IV)	Less than 3 month (I)	Between 3-12 month (II)	Between 1-5 years (III)	Over 5 years (IV)
Non-derivative financial liabilities						
Bank loans	430,119	517,991	14,967	38,864	464,160	-
Trade payables	401,145	402,431	402,102	329	-	-
Expected maturities	Book value	Total expected cash outflow	Less than 3 month	Between 3-12 month	Between 1-5 years (III)	Over 5 years (IV)
Non-derivative financial liabilities						
Other payables	37,958	46,588	46,588	-	-	-
Other short-term liabilities	11,200	11,200	11,200	-	-	-
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 (IV)
Derivative financial liabilities (net)	52	52	52	-	-	-
Derivative cash inflows	25,449	25,449	25,449	-	-	-
Derivative cash outflows	(25,397)	(25,397)	(25,397)	-	-	-

Market risk

a) Foreign currency risk and related sensitivity analysis

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

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

The accompanying table represents the foreign currency risk of the assets and liabilities of the Group in the original currencies;

31 December 2017	TL equivalent (functional currency)	USD	EUR	GBP
1. Trade receivables	589,040	90,131	55,035	111
2a. Monetary financial assets (including cash, bank accounts)	401,125	105,321	856	
2b. Non-monetary financial assets	-	-	-	-
3. Other	8	2	-	-
4. Current assets (1+2+3)	990,173	195,454	55,891	111
5. Trade receivables	3,847	-	852	-
6a. Monetary financial assets	-	-	-	-
6b. Non-monetary financial assets	-	-	-	-
7. Other	103	7	17	-
8. Non-current assets (5+6+7)	3,950	7	869	-
9. Total assets (4+8)	994,123	195,461	56,760	111
10. Trade payables	(8,423)	(126)	(1,759)	(1)
11. Financial liabilities	-	-	-	-
12a. Monetary other liabilities	(310,684)	(82,122)	(174)	(28)
12b. Non-monetary other liabilities	(9,487)	-	(2,101)	-
13. Current liabilities (10+11+12)	(328,594)	(82,248)	(4,034)	(29)
14. Trade payables	-	-	-	-
15. Financial liabilities	-	-	-	-
16a. Monetary other liabilities	(404,513)	(107,244)	-	-
16b. Non-monetary other liabilities	-	-	-	-
17. Non-current liabilities (14+15+16)	(404,513)	(107,244)	-	-
18. Total liabilities (13+17)	(733,107)	(189,492)	(4,034)	(29)
Net balance sheet position (9+18)	261,016	5,969	57,726	82
19. Net asset/(liability) position of off-balance sheet derivative-instruments((19a-19b)	(259,323)	(6,500)	(52,000)	-
19a. Hedged total assets amount	-	-	-	-
19b. Hedged total liabilities amount	(259,323)	(6,500)	(52,000)	-
20. Net foreign currency asset/(liability) position (9+18+19)	1,693	(531)	726	82
21. Net foreign currency asset/(liability) position of monetary items (=1+2a+5+6a-10-11-12a-14-15-16a)	270,392	5,960	54,810	82
22. Total fair value of financial instruments used for foreign currency hedging	(1,325)	(72)	(1,253)	-
23. Export	546,540	59,450	78,239	146
24. Import	464,611	59,078	59,924	1,327

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

31 December 2016		TL equivalent (functional currency)	USD	EUR	GBP
1.	Trade receivables	470,904	76,165	53,968	613
2a.	Monetary financial assets (including cash, bank accounts)	189,090	39,445	13,552	-
2b.	Non-monetary financial assets	-	-	-	-
3.	Other	2	-	-	-
4.	Current assets (1+2+3)	659,996	115,610	67,520	613
5.	Trade receivables	7,558	-	2,037	-
6a.	Monetary financial assets	-	-	-	-
6b.	Non-monetary financial assets	-	-	-	-
7.	Other	74	3	17	-
8.	Non-current assets (5+6+7)	7,632	3	2,054	-
9.	Total assets (4+8)	667,628	115,613	69,574	613
10.	Trade payables	(25,305)	(2,841)	(4,126)	-
11.	Financial liabilities	(491)	-	(132)	-
12a.	Monetary other liabilities	(500,458)	(108,505)	(31,937)	(29)
12b.	Non-monetary other liabilities	(25,302)	-	(6,820)	-
13.	Current liabilities (10+11+12)	(551,556)	(111,346)	(43,015)	(29)
14.	Trade payables	-	-	-	-
15.	Financial liabilities	(74,198)	-	(20,000)	-
16a.	Monetary other liabilities	-	-	-	-
16b.	Non-monetary other liabilities	(7,754)	-	(2,090)	-
17.	Non-current liabilities (14+15+16)	(81,952)	-	(22,090)	-
18.	Total liabilities (13+17)	(633,508)	(111,346)	(65,105)	(29)
	Net balance sheet position (9+18)	34,120	4,267	4,469	584
19.	Net asset/(liability) position of off-balance sheet derivative instruments((19a-19b)	(25,397)	(3,000)	(4,000)	-
19a.	Hedged total assets amount	-	-	-	-
19b.	Hedged total liabilities amount	(25,397)	(3,000)	(4,000)	-
20.	Net foreign currency asset/(liability) position (9+18+19)	8,723	1,267	469	584
21.	Net foreign currency asset/(liability) position of monetary items (=1+2a+5+6a-10-11-12a-14-15-16a)	67,100	4,264	13,362	584
22.	Total fair value of financial instruments used for foreign currency hedging	(52)	(24)	(28)	-
23.	Export	441,813	49,321	84,591	1,728
24.	Import	568,711	88,221	86,295	3,755

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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 Group's income before tax as of 31 December 2017 and 2016:

31 December 2017	Profit before tax	
	Appreciation of foreign currency	Depreciation of foreign currency
<i>In case 10% appreciation of USD against TL:</i>		
1- USD net asset/liability	(200)	200
2- Amount hedged for USD risk (-)	-	-
3- USD net effect (1+2)	(200)	200
<i>In case 10% appreciation of EUR against TL:</i>		
4- EUR net asset/liability	328	(328)
5- Amount hedged for EUR risk (-)	-	-
6- EUR net effect (4+5)	328	(328)
<i>In case 10% appreciation of GBP against TL:</i>		
7- GBP net asset/liability	42	(42)
8- Amount hedged for GBP risk (-)	-	-
9- GBP net effect (7+8)	42	(42)
Total (3+6+9)	170	(170)
31 December 2016	Profit before tax	
	Appreciation of foreign currency	Depreciation of foreign currency
<i>In case 10% appreciation of USD against TL:</i>		
1- USD net asset/liability	446	(446)
2- Amount hedged for USD risk (-)	-	-
3- USD net effect (1+2)	446	(446)
<i>In case 10% appreciation of EUR against TL:</i>		
4- EUR net asset/liability	174	(174)
5- Amount hedged for EUR risk (-)	-	-
6- EUR net effect (4+5)	174	(174)
<i>In case 10% appreciation of GBP against TL:</i>		
7- GBP net asset/liability	252	(252)
8- Amount hedged for GBP risk (-)	-	-
9- GBP net effect (7+8)	252	(252)
Total (3+6+9)	872	(872)

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

b) Interest position table and related sensitivity analysis

Interest rate risk

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

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

As of 31 December 2017 and 2016, the financial liabilities of the Group are consisted of fixed rate bank borrowings.

Capital risk management

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

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

	31 December 2017	31 December 2016
Total financial liability	703,658	430,119
Less: Cash and cash equivalents (Note 4)	(228,958)	(38,598)
Net financial liability	474,700	391,521
Total equity	283,554	242,958
Financial debt/shareholders' equity factor	167%	161%

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).

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NOTES TO CONSOLIDATED YEARS ENDED FINANCIAL STATEMENTS
AT 31 DECEMBER 2017 AND 2016

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

NOTE 29 - FINANCIAL INSTRUMENTS (Continued)

The following table presents the Group's assets that are measured at fair value at 31 December 2017 and 2016:

31 December 2017				
Assets	Level 1	Level 2	Level 3	Total
Derivative financial instruments	-	1,325	-	1,325
Total	-	1,325	-	1,325
31 December 2016				
Assets	Level 1	Level 2	Level 3	Total
Derivative financial instruments	-	52	-	52
Total	-	52	-	52

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

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

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

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

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

NOTE 30 - SUBSEQUENT EVENTS

The negotiation process of the Collective Labour Agreement between Turkish Metal Industrialists Union (MESS) of which our Company is a member and the Turkish Metal Union is signed as of 30 January 2018, effective period of the agreement is between 01 September 2017 – 31 August 2019.

NOTE 31- OTHER MATTERS WHICH ARE SIGNIFICANT TO THE CONSOLIDATED FINANCIAL STATEMENTS OR WHICH SHOULD BE DISCLOSED FOR THE PURPOSE OF TRUE AND FAIR INTERPRETATION OF THE CONSOLIDATED FINANCIAL STATEMENTS.

None.

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

INFORMATION DOCUMENT CONCERNING THE GENERAL ASSEMBLY TO CONVENE ON 15 MARCH 2018 TO REVIEW 2017

1. INVITATION TO THE ORDINARY GENERAL ASSEMBLY MEETING ON 15 MARCH 2018

The Ordinary General Assembly will convene to review the 2017 activities of the Company and to discuss the agenda detailed below on Thursday, 15 March 2018 at 10.00 am at Divan Istanbul Hotel, No: 1 Elmadağ Şişli – Istanbul (Phone +90 212 515 55 00).

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 detailed Information Document containing the notes for compliance with the Capital Markets Board's regulations, all of which pertain to the 2017 fiscal year will be made available for the shareholders to review at the Company's Head Office, on the corporate website at www.otokar.com, and EGKS (Electronic General Assembly System) of the Central Registry Agency three weeks prior to the Ordinary General Assembly within the legal duration.

Provided 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 available at Yapı Kredi Yatırım Menkul Değerler A.Ş. (Yapı Kredi Plaza, Levent, Istanbul), the Company offices or corporate website at www.otokar.com and, by fulfilling the requirements set forth in Communiqué II-30.1 on Voting by Proxy and Collection of Proxies via Invitation published in the Official Gazette number 28861 on 24.12.2013 and entered into effect thereof, present their proxies, bearing their public notary attested signature, 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 sample attached to the invitation to General Assembly 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 corporate website at www.otokar.com or the Company's Head Office (Phone: 0216 229 22 44) to be able to fulfil their obligations in compliance with applicable Regulations and Communiqués.

Pursuant to paragraph 4 of article 415 of the new Turkish Commercial Code 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.

Pursuant to Law 6698 on the Protection of Personal Data, detailed information regarding the processing of your personal data by our company is available in the Otokar Otomotiv ve Savunma Sanayi A.Ş. Protection and Processing of Personal Data Policy, which is disclosed to the public and can be accessed on the corporate website at www.otokar.com.

Provided 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 press members and media representatives 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 traded in stock market.

Respectfully submitted to the Shareholders.

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

Company Headquarters: Aydınevler Mahallesi Saygı Caddesi No: 58 34854 Maltepe/İstanbul

Trade Registry and Number: İstanbul – 83467

Central Trade Registry System Number: 0649001827200010

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ
INFORMATION DOCUMENT CONCERNING THE GENERAL ASSEMBLY TO CONVENE
ON 15 MARCH 2018 TO REVIEW 2017

2. ADDITIONAL DISCLOSURES IN ACCORDANCE WITH CMB REGULATIONS

The additional disclosures required pursuant to Capital Markets Board's (CMB) "Corporate Governance Communiqué" II-17.1 that entered into force on 3 January 2014 regarding agenda topics, are provided in the relevant agenda topics while other mandatory general disclosures are presented for your consideration in this section:

2.1. Shareholding structure and Voting Rights

There are no privileges in the 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	Share Amount (TL)	Capital Ratio (%)	Voting Rights	Voting Rights Ratio (%)
Koç Holding A.Ş.	10,722,749,81	44.68	10,722,749.809	44.68
Ünver Holding A.Ş.	5,954,943,83	24.81	5,954,943.830	24.81
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
Publicly traded	6,534,432.44	27.23	6,534,432.437	27.23
Total	24,000,000.00	100.00%	24,000,000.000	100.00%

The Company's majority shareholder Koç Holding A.Ş. is controlled by the Koç Family and companies that the family owns.

The Company's shareholder Ünver Holding A.Ş. is controlled by the Ünver Family.

2.2. Changes in the Management or Activities of that may Materially Affect the Operations of the Company and its Subsidiaries

Information on changes in the management or activities of the company and its subsidiaries that have occurred in the previous accounting period or planned for future accounting periods that may materially affect operations, and the reasons for such changes, are provided below:

Within the framework of our strategic targets as Otokar Otomotiv ve Savunma Sanayi A.Ş., no materially significant changes have occurred in management and activities in 2017. No significant changes in management and activities are planned for upcoming accounting periods either.

2.3. Information concerning the Requests of Shareholders for Inclusion of a Topic 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 2017 activities will be discussed.

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INFORMATION DOCUMENT CONCERNING THE GENERAL ASSEMBLY TO CONVENE ON 15 MARCH 2018 TO REVIEW 2017

3. REMARKS ON THE AGENDA TOPICS OF THE ORDINARY GENERAL ASSEMBLY ON 15 MARCH 2018

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 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 2017 Annual Report prepared by the Company's Board of Directors

Information on the 2017 Annual Report that also contains the corporate governance principles compliance report, which was made available for shareholders to review at the Company's Head Office, on the Electronic General Assembly portal of the Central Registry Agency and on the corporate website at www.otokar.com 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 2017 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 2017 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 for the shareholders to review at the Company's Head Office, on the Electronic General Assembly portal of the Central Registry Agency and on the corporate website at www.otokar.com will be presented to the General Assembly.

4. Presentation for discussion and approval of the Financial Statements for the 2017 fiscal year

Information concerning our financial statements and statutory financial statements issued in accordance with Tax Procedure Law that were made available for shareholders to review at the Company's Head Office, on the Electronic General Assembly portal of the Central Registry Agency and on the corporate website at www.otokar.com 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 2017

Release of the members of the Board of Directors in respect of the activities, transactions and accounts in 2017 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 2017 profit distribution

According to the financial statements for the accounting period of 01.01.2017-31.12.2017 prepared in compliance with the Turkish Accounting standards/Turkish Financial Reporting Standards in accordance with the provisions of Turkish Commercial Code and Capital Market Law, and audited by PwC Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş., the parent company has earned a "Consolidated Net Profit in the Period" amounting to TL 99,422,469. The table regarding our profit distribution proposal, which was prepared by taking into account our Profit Distribution Policy, long-term 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 members of the Board of Directors and their terms of office, and election of the members in accordance with the resolved number and election of 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

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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 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 five (5) members who are elected for maximum three (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, Mr. Ahmet Nezh Olcay, Mr. Ali İhsan Kamanlı and Mr. Kenan Güven are 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 of the "Remuneration Policy" for the Board of Directors and Senior Executives and payments made thereof pursuant to Corporate Governance Principles to Shareholders for approval

Pursuant to CMB's mandatory Corporate Governance Principle 4.6.2, the principles applicable to remuneration of the members of the Board of Directors and senior executives must be put 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 2017 fiscal year, benefits amounting to a total of TL 14.8 million were provided to Board of Directors and senior executives by Otokar Otomotiv ve Savunma Sanayi A.Ş. in 2017.

9. Resolution of annual gross salaries to be paid to members of the Board of Directors

The amount of annual gross salaries to be paid to members of the board of directors during the 2018 fiscal year in accordance with the Remuneration Policy presented to the approval of shareholders in line with agenda topic 9 will be determined by the shareholders.

10. Approval of the appointment of the Independent Audit Firm selected by the Board of Directors pursuant to provisions of the Turkish Commercial Code and Capital Markets Board regulations

In its meeting on 7 February 2018, the Board of Directors, consulting with the Audit Committee, resolved to appoint PwC Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş. to audit the company's financial statements for the 2018 accounting period and to carry out the other tasks under the relevant regulations in accordance with the Turkish Commercial Code and 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 2017, and resolution of an upper limit for donations to be made in 2018

According to article 6 of the Capital Markets Board's Profit Distribution Communiqué 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 2017 amounted to TL 577,021. The upper limit of the donations to be made in 2018 will be determined by the General Assembly.

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12. Authorization of the shareholders with management control, members of the Board of Directors, senior executives and their spouses and relatives related by blood or affinity up to the second degree pursuant to Articles 395 and 396 of the Turkish Commercial Code; and presentation to the shareholders, of the transactions carried out in 2017 within the scope of Capital Markets Board Corporate Governance Communiqué

Execution of transactions by 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, 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 shareholders, who will also be informed about the transactions carried out during the year. Some of the shareholders with management control, some Board members, executives with administrative responsibilities and their spouses and relatives related by blood or affinity up to the second degree also serve on the Boards of Directors of other Koç Group companies, including those with similar activities with the Company. In 2017, no transaction that required disclosure pursuant to Corporate Governance Principle 1.3.6 has transpired.

13. Wishes and opinions

ATTACHMENTS:

ATTACHMENT/1	Profit Distribution Policy, Board of Directors’ Proposal for Distribution of 2017 Profits and Table of Profit Distribution Proposal (Pages 30-31)
ATTACHMENT/2	Resumes of the Candidates for the Board of Directors and Declarations of Independence by Independent Member Candidates (Pages 32-33)
ATTACHMENT/3	Remuneration Policy for Members of the Board of Directors and Senior Executives (Page 34)

GLOSSARY

AED: United Arab Emirates Dirham

APV: Armored Patrol Vehicle

BAFO: Best and Final Offer

BIST: Borsa İstanbul A.Ş. (Istanbul Stock Exchange)

CMB: Capital Markets Board

EBITDA: Earnings before Interest, Taxes, Depreciation and Amortization

EGKS: Electronic General Meeting System (e-GEM). Shareholder participation to General Assembly meetings by remote access and mobile applications through e-MKK Information Portal

EMC: Electromagnetic Compatibility

EMI: Electromagnetic Interference

IAS: International Accounting Standards

IETT: Istanbul Electric Power, Funicular, and Streetcar Board

KAP: Public Disclosure Platform (PDP) is an electronic system through which electronically signed notifications required by the capital markets and Borsa İstanbul regulations are publicly disclosed

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

MESS: Turkish Metal Industrialists Union

MKK: MKK (Central Depository Institution) holds capital market instruments and rights in an electronic environment on an investor basis with respect to participants.

OSD: Automotive Manufacturers Association

POA: Public Oversight Accounting and Auditing Standards Authority

TDP: Technical Data Package

TMS: Turkish Accounting Standards

TTK: Turkish Commercial Code

TUBITAK: The Scientific and Technological Research Council of Turkey (TÜBİTAK) is the leading agency with a mission to advance science and technology, conduct research and support Turkish researchers.

