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We are profoundly saddened by the untimely passing of Deputy Chairman Halil İbrahim Ünver. He was very influential in Otokar's outstanding growth to this day and contributed significantly to the development of the automotive and defense industries in Turkey. He will always be missed.

CHAIRMAN'S MESSAGE



OTOKAR REACHED ITS TARGETS IN 2018 AND ACHIEVED A NET PROFIT OF TL 164 MILLION WITH 65 PERCENT INCREASE.

Esteemed shareholders, business partners and employees,

Last year, we suffered the untimely loss of our Deputy Chairman Halil İbrahim Ünver, whose valuable contributions helped to bring Otokar to its competitive position today in Turkey and the world. We will always remember and truly miss him. On the path that we mapped together with the late Halil İbrahim Ünver, Otokar continues to charge ahead with confident steps to reach its vision of becoming a global player despite the adverse developments.

As the concerns for global growth clearly increased in 2018, the turmoil

seen in the financial markets in August and the ensuing cash shortage had a negative impact on the companies in Turkey. Due to the developments, Otokar closed the year with TL 1.679 billion in sales, down six percent. But thanks to the contingency plans we made by anticipating possible developments and timely precautions, the company still reached its targets in 2018 and achieved a net profit of TL 164 million with 65 percent increase. The key factor behind this success was the fact that Otokar was able to foresee the tightening in the domestic market way ahead of time and turn its focus toward exports. With determined actions in both commercial and defense sectors, Otokar doubled its export figures year on year and reached USD 211 million in export revenues. The share of exports in total sales also rose from 31 percent to 65 percent compared to the previous year. Defense products took the lion's share in exports.

Our subsidiaries and affiliates abroad contributed significantly to our company's profitability in 2018. Two deals with high impact on Otokar's increased profitability and export figures were of particular importance in both financial and also strategic terms. The first of these export projects, which we started to deliver last year and will continue in 2019, was with the United Arab Emirates Armed Forces for supplying armored vehicles. This order is also Turkey's largest land systems export deal signed for a single item. With the launch of serial production at our plant in Sakarya in

2018, Rabdan 8x8 armored vehicles successfully passed all acceptance tests including firing and amphibious capabilities, and the first deliveries started late last year. The particular importance of the project, which will continue with further deliveries in the upcoming period, is the fact that Otokar is no longer just a defense industry company that manufactures and sells products but one that also exports its knowhow and transfers technology.

Otokar exports defense industry products including tactical wheeled and tracked armored vehicles and turret systems with owned intellectual property rights to 32 friendly and allied countries. In 2018, Otokar also increased the number of its vehicles in the Turkish Armed Forces inventory. One of the items on Turkish defense industry's agenda was the Altay main battle tank. In 2018, Otokar, as prime contractor, successfully completed the first phase of the project that involved the design, prototyping and qualification processes of the Altay main battle tank. However, another manufacturer was awarded the serial production tender. The first phase of the Altay project, which we proudly completed, undoubtedly provided Otokar with very important knowhow and created a unique experience in developing new products. With the knowhow gained in the field of tracked armored vehicles and seeing the increasing need for light tanks across the world, Otokar debuted Tulpar Light Tank last year in France. The vehicle successfully completed the firing tests

in Europe and is already being tried by two different users.

The second most notable development in our exports was in the bus segment. Thanks to our subsidiary Otokar Europe's efforts and success in expanding the dealership and aftersales service network over the years and building momentum, we are now following tenders for public transportation vehicles, especially in Europe very closely. As a result, we won the contract of the Bucharest Municipality to deliver 400 city buses and to provide aftersales services for these buses for eight years. The deliveries within the scope of this contract, which also happens to be the largest export deal for a single item undertaken by a Turkish bus brand, started late last year and are slated for completion in the first half of 2019.

Otokar's success in exports is not limited to these deals because the company also sold buses to a number of countries, including Poland, Jordan, Germany and Spain among others and for the tenth time, Otokar became Turkey's most preferred bus brand in its own segments at a time when the Turkish bus market shrank by 29 percent.

Esteemed partners,

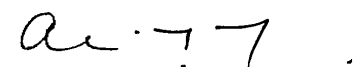
In the upcoming period, we expect further tightening in domestic demand and therefore make sure that we focus on long-term goals in these challenging times. We aim to keep up with the rapid changes in technology by accurately interpreting the

changing conditions and anticipating the expectations and needs of our customers, and to provide services and manufacture products with high added value in the most effective manner by seizing the opportunities that digital technologies offer. As we realize these objectives, we also focus on operational excellence while firmly upholding business ethics and remaining friendly with the environment in line with the United Nations Sustainable Development Goals.

For 2019, our goals are to maintain our leading position in the domestic bus market, to grow our share in target markets for commercial vehicles with newly developed products, to increase the number of our defense products in the inventories of our existing customers, and to expand into new markets.

I would like to extend my sincere gratitude to all of our shareholders and customers for their trust in our company and to thank our business partners and employees for their contributions and efforts, which make our success possible. I hope that 2019 will be a beneficial year for our company, our Group, and our country.

With warm regards,



Ali Y. Koç
Chairman

ABOUT



OTOKAR'S BROAD PRODUCT LINES ARE HIGHLY SOUGHT AFTER BOTH IN TURKEY AND EXPORT MARKETS.

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

Today, as Turkey's leading manufacturer of commercial vehicles and defense industry products, Otokar produces buses, 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. Otokar, a Koç Group company, operates at the Arifiye (Sakarya) plant, offering solutions tailored to customer needs with its technologies, designs and applications.

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

5 Continents
60+ Countries



Otokar comes to the forefront in land vehicles for the defense industry with its expertise in the design, development and system integration of all kinds of vehicles and platforms. The company manufactures tactical wheeled and tracked armored vehicles and turret systems with owned intellectual property rights, and exports defense industry products to more than 30 countries. Otokar also stands apart with world-class knowhow in the defense industry as well as engineering, R&D and technology transfer capabilities.

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

With numerous firsts to its name since its inception, Otokar carries out R&D activities in world standards. The company has allocated approximately 9 percent of its revenues for R&D expenditures in the last decade.

VISION

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

MISSION

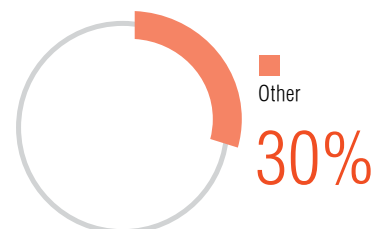
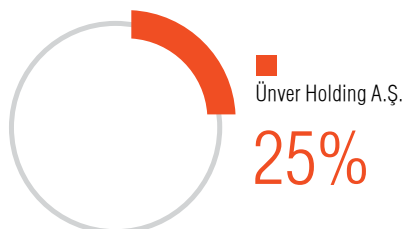
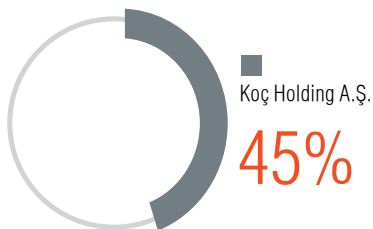
OTOKAR'S PRIMARY MISSION IS TO DESIGN, MANUFACTURE AND MARKET COMMERCIAL VEHICLES AND VARIOUS DEFENSE INDUSTRY PRODUCTS WITH GLOBAL COMPETITIVE STRENGTH, ALL DEVELOPED TO MEET CUSTOMER EXPECTATIONS.

OTOKAR IN NUMBERS

FOUNDED IN 1963

100% LOCAL CAPITAL

SHAREHOLDING STRUCTURE



GLOBAL COMPANY

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

PIONEER

Pioneering supplier of land defense systems for Turkish Armed Forces

MARKET LEADER

Most preferred bus brand in the bus segments it operates in Turkey



COMPETITIVE ADVANTAGES

PRODUCTS WITH OTOKAR OWNED INTELLECTUAL PROPERTY RIGHTS

Independence to develop products to meet market requirements, potential to export technology-transfer to overseas

PUBLICLY TRADED

Transparent structure, reliability

R&D CAPABILITIES AND FLEXIBLE PRODUCTION ABILITY

Rapid product development and speed to market

OPERATING IN NICHE MARKETS

Sustainable growth

CAPABILITY TO OFFER CUSTOMIZED FEATURES

Customer satisfaction guarantee

USD 211 MILLION
2018 EXPORT REVENUES

TL 1.7 BILLION
2018 TURNOVER

TL 1 BILLION
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

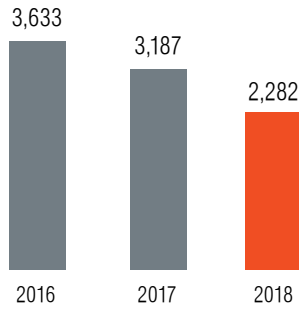
IN 2018, 1 OUT OF EVERY 3 BUSES SOLD IN TURKEY WAS OTOKAR

*in the segments it operates

SUMMARY FINANCIAL INFORMATION

SALES QUANTITIES

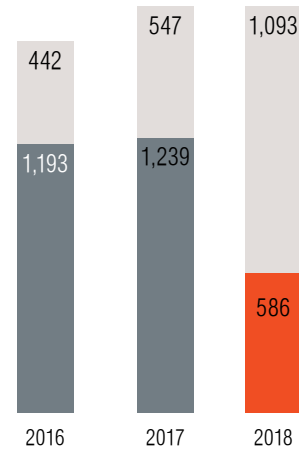
units



NET PROFIT

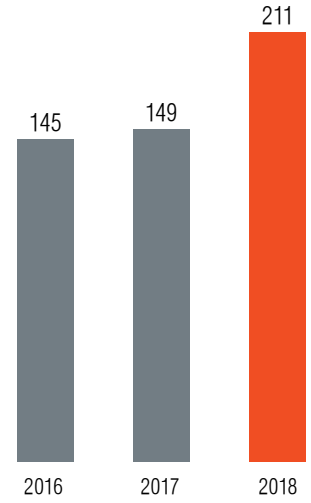
TL million

■ Yurt İçi ■ Yurt Dışı



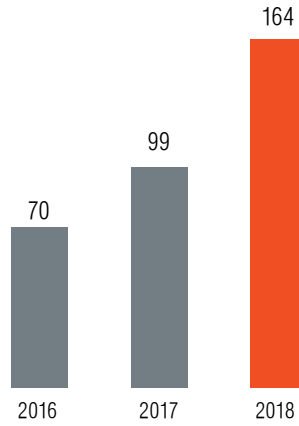
SALES REVENUES

TL million



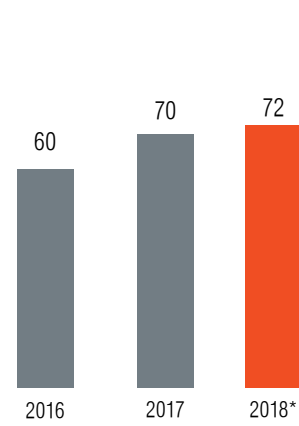
SHAREHOLDERS' EQUITY

TL million



DIVIDENDS PAID

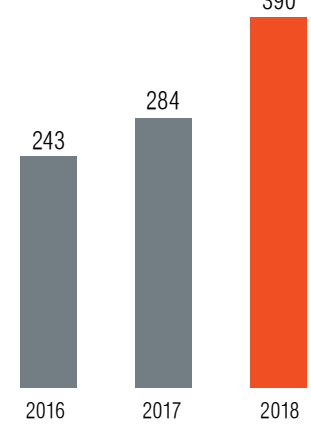
TL million



* Dividend proposal will be presented to the General Assembly for approval in March 2019.

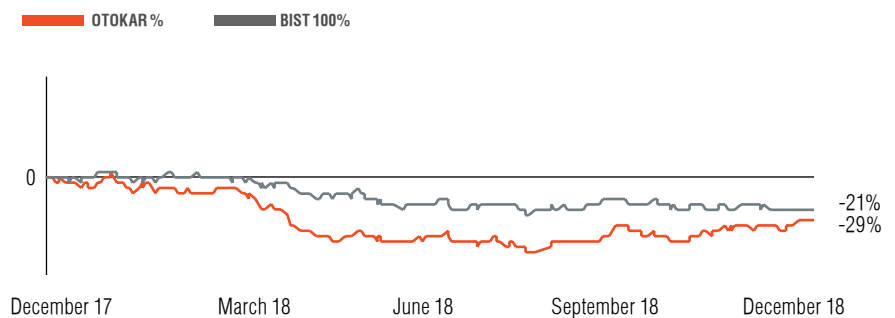
PRODUCTION QUANTITIES

TL million



STOCK PERFORMANCE

The shares of Otokar Otomotiv ve Savunma Sanayi A.Ş. are traded on Borsa İstanbul with ticker symbol "OTKAR" since 24 April 1995, and also included in the BIST 100, Corporate Governance and Sustainability Indexes. The shares have seen lowest TL 62.45 and highest TL 129.80 in 2018 while the company has earned the right to be listed in the 2019 BIST Sustainability Index as well, following the evaluation of BIST.



MAIN RATIOS (%)

	2018	2017
Gross Profit Margin	35.3	26.4
Operating Margin	13.8	12.6
EBITDA Margin	13.5	10.4
Pre-tax Profit Margin	7.2	5.1
Net Profit Margin	9.8	5.6

FINANCIAL RATIOS

Liquidity Ratios	2018	2017
Current Ratio (Current Assets/Short Term Liabilities)	2.08	1.52
Liquidity Ratio (Current Assets-Inventories/Short Term Liabilities)	1.28	1.14
Financial Leverage Ratios	2018	2017
Total Debt to Total Assets Ratio (Short Term Debt + Long Term Debt/Total Assets)	0.83	0.86
Equity/Total Debt Equity/(Short Term Debt + Long Term Debt)	0.20	0.16
Profitability Ratios	2018	2017
Sales Profitability Ratio (Pre-Tax Profit/Net Sales)	0.07	0.05
Return on Assets (Pre-Tax Profit/Total Assets)	0.05	0.05
Return on Equity (Net Profit/Shareholders' Equity)	0.42	0.35

R&D INDICATORS

8.5%

Share of 10-year R&D expenditures in turnover

TL 1 BILLION

Total R&D expenditure in the last decade

279

Patents and industrial designs owned

99%

Share of Otokar-designed vehicle sales in turnover

PRODUCTIVITY INDICATORS

1,711

Productivity improvement proposals submitted by employees in 2018

19.3%

Capacity utilization rate

13%

10-year average growth

TL 116 MILLION

Economic contribution

CORPORATE GOVERNANCE RATING SCORE 93.51

AREAS OF OPERATION

COMMERCIAL VEHICLES



DESCRIPTION

- Otokar boasts the 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, city and tourism transportation.
- Exporting buses to 50 countries, particularly in Europe.
- Working on alternative fueled vehicles.
- Among the leading manufacturers of semi-trailers, on-truck applications for local and international transportation and logistics sectors.
- Manufacturing light trucks with 8.5-ton gross vehicle weight under license since 2013.

DEFENSE INDUSTRY



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

PRODUCTS**BUS**

Poyraz

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

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

Ulyso T

Kent (Kent LF, Kent CNG, Kent U, Kent C)

Kent Articulated

Territo

TRAILER, SEMI-TRAILER

Refrigerated Semi-Trailer

ADR-certified tanker semi-trailer

On-truck applications (Cylindrical, elliptical, maxi section)

LIGHT TRUCK

Atlas Long Wheelbase, Atlas Short Wheelbase

MARKET POSITION AND HIGHLIGHTS OF 2018

- Maintained its position as the leader of the Turkish bus market in segments it operates.
- Signed deal for 400 buses with the Bucharest Municipality, the largest export deal for a single item by a Turkish bus brand, and started delivering the buses.
- Won bus contracts from the Cities of Warsaw and Amman.
- First Kent CNG exported to Spain.
- Ulyso T launched onto the German market.
- Focused on hazardous goods transportation and perishable food transportation, both of which require expertise in trailer manufacturing.
- Continued to deliver domestic orders for Atlas light trucks.

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)

TURRET SYSTEMS

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

- Serial production of Rabdan 8x8 armored vehicles for UAE Armed Forces commenced at Otokar plant.
- The first Rabdan armored vehicles out of production successfully completed acceptance tests at the plant as well as amphibious and firing tests in the Gulf, and the first batch was delivered in late 2018.
- Designed with the experience gained through Altay MBT Project, Tulpar light tank debuted at the Eurosatory defense exhibition in France.
- Order received from an Asian country for Cobra II, which was also included in the Naval Forces Command inventory. Turkish Armed Forces recently started using Cobra II as Mortar Detection Radar Vehicle.

MILESTONES

**IN THE SUCCESSFUL
JOURNEY THAT STARTED
55 YEARS AGO, OTOKAR
CONTINUED TO CHARGE
AHEAD TOWARD THE
FUTURE.**

1960s

1963
Established in Bahçelievler, Istanbul under the name Otobüs Karoseri Sanayi A.Ş.

1964
Produced Turkey's first intercity buses under Magirus license.

1967
Produced and exported first small buses.

1968
Produced the legendary "Havalı Apollo" buses of the period.

1970s

1970
Produced first minibuses designed for public transportation.

1976
Joined the Koç Group.

1980s

1980
Designed and produced Turkey's first armored cash-in-transit vehicle.

1984
Company title amended as "Otokar Otobüs Karoseri Sanayi A.Ş.".

1987
Production of tactical wheeled vehicles under Land Rover Defender license commenced; first major order received.

1990s

1990
Produced Turkey's first tactical wheeled armored vehicle, exported Turkey's first tactical armored vehicle.

1995
Otokar IPO.

1997
Relocation to the 86,000-square meter plant in Sakarya.

1999
Otokar Pazarlama A.Ş. acquired.

2000s

2002
İstanbul Fruehauf A.Ş. acquired.

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

2003
Produced Turkey's first ADR-certified tanker.

2004
R&D activities consolidated at the Otokar R&D Center.

2005
Armored internal security vehicle added to product range.

Designed and produced Otokar branded semi-trailer.

2007
"Vectio/ Doruk", which became the bestselling medium-size bus for the next seven years, included in production plans. Turkey's first hybrid bus produced.

2008
Named prime contractor for the modern main

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

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

2009
Mine-resistant armored vehicle "Kaya" and 12-meter city bus "Kent" added to product range.

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

2010s

2010

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

“Arma 6x6”, a 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 unveiled for the first time.

Otokar subsidiary, Otokar Europe founded in France.

2012

Otokar Tank Test Center opened.

Turkey’s first electric bus introduced.

First prototypes of the national tank Altay presented.

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

2013

Light commercial truck production commenced.

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

2014

Became bestselling bus brand of Turkey for the fifth time.

Received ISO 10002 certification for customer satisfaction.

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

Otokar Electromagnetic Compatibility Test Center accredited.

2015

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

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

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

Awarded OHSAS 18001 certification for occupational health and safety.

Included in the BIST Sustainability Index.

Became leader in small bus exports.

2016

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

Otokar Land Systems Limited established 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.

Delivery of 100 articulated buses to ESHOT of İzmir Metropolitan Municipality under the contract awarded the previous year completed.

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

Huckepack, the first refrigerated trailer -produced and certified in Turkey- conforming to railroad shipments in Code XL load safety standards, added to product range.

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

2017

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

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

Tulpar-S personnel carrier variant added to product range.

Al Jasoore, the joint venture company established by Otokar and the local partner in Abu Dhabi (UAE), was awarded the contract to provide the United Arab Emirates Armed Forces with 8x8 armored vehicles, becoming Turkey’s largest land systems export deal undertaken for a single item.

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

HIGHLIGHTS OF 2018



Serial production of Rabdan 8x8 armored vehicles, as part of the USD 661 million deal that Al Jasoor (Cesur), the joint venture of Otokar and Tawazun, signed with the UAE Armed Forces started at the Otokar plant.

The first Rabdan armored vehicles out of production successfully completed acceptance tests at the plant as well as amphibious and firing tests in the Gulf, and the first batch was delivered to United Arab Emirates.

Otokar signed a deal for 400 buses with the Bucharest Municipality, the largest export deal for a single item by a Turkish bus brand, and started delivering the buses.

Otokar maintained its position as the leader of the Turkish bus market in terms of the segments in which the company operates.

Otokar established a company titled Otokar Europe Filiala Bucuresti S.R.L. to manage its export operations in Romania.

An order was received for the Warsaw Municipality for 34 city buses.

Winning the bus contract from the City of Amman, Otokar received an order for total 135 buses.

Kent CNG buses were exported to Spain for the first time.

An Asian country placed a Cobra II order worth USD 28.9 million.

Cobra II was included in the Turkish Armed Forces as Mortar Detection Radar Vehicle.



Tulpar light tank, which recently joined the defense vehicle lineup, debuted at the Eurosatory defense exhibition in Paris, France.

In addition to the implementation of six different digital transformation projects, the Otokar mobile app developed for commercial vehicle users was also launched.

With the international Appstacale project, in which Otokar and Koc Sistem participate as project partners, development of a cloud-based smart vehicle app that will become a benchmark in next generation automotive standards is ongoing.

Otokar Spectra branded engine, transmission and axle lubricants and antifreeze for Otokar commercial and defense vehicles were introduced to the market.

Otokar, which aims to create long-term value by combining economic, environmental and social aspects with corporate governance principles, is included in the BIST Sustainability Index for the fourth consecutive time.

Otokar won the “Golden Suggestion” award at the MESS Golden Glove and Golden Suggestion competition.

Ulyso T was promoted to the German market at IAA Commercial Vehicles, one of the leading international events of the industry.



OTOKAR, AS THE ONLY LAND VEHICLES
MANUFACTURER WITH NATIONAL
CAPITAL IN TURKEY, HAS THE MEANS
AND CAPABILITIES TO DESIGN,
DEVELOP, ENGINEER, TEST AND
QUALIFY VEHICLES.



GENERAL ASSEMBLY

MEETING AGENDA

AGENDA OF THE ANNUAL GENERAL ASSEMBLY MEETING OF OTOKAR OTOMOTİV VE SAVUNMA SANAYİ A.Ş. ON 18 MARCH 2019

1. Opening and election of the Chairman who will preside over the meeting
2. Presentation for discussion and approval of the 2018 Annual Report prepared by the company's Board of Directors
3. Presentation of the summary of the Independent Audit Report for the 2018 fiscal year
4. Presentation for discussion and approval of the Financial Statements of the company for the 2018 fiscal year
5. Approval of the membership changes on the Board of Directors during the year in accordance with article 363 of the Turkish Commercial Code
6. Release of each member of the Board of Directors from liability for the affairs of the company in 2018
7. Approval, approval with modifications, or disapproval of the Board of Directors' dividend proposal prepared in accordance with the company's Profit Distribution Policy and pertaining to the date and issuance of profit distribution
8. Resolution on the number of the 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 the Independent Members of the Board of Directors
9. 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
10. Resolution of the annual gross salaries to be paid to the Members of the Board of Directors
11. Approval of the appointment of the Independent Audit Firm selected by the Board of Directors pursuant to the provisions of the Turkish Commercial Code and the Capital Markets Board regulations
12. Presentation to the shareholders, of the donations made by the company in 2018, and resolution of an upper limit for donations to be made in 2019
13. 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 2018 pursuant to the Corporate Governance Communiqué of the Capital Markets Board
14. 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 2018 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 6 February 2019 on the full set consolidated financial statements for the 1 January-31 December 2018 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 Ortaç, SMMM
Partner

Istanbul, 22 February 2019

GENERAL ASSEMBLY

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ A.Ş.

BOARD OF DIRECTORS' REPORT FOR THE PERIOD 01.01.2018 - 31.12.2018

The consolidated financial statements of the company reflecting the 2018 activities and their results, prepared in accordance with the Turkish Accounting Standards/Turkish Financial Reporting Standards ("TAS/TFRS") introduced by the Public Oversight, Accounting and Auditing Standards Authority ("POA") of Turkey and their annexes and interpretations pursuant to the provisions of the Capital Markets Board ("CMB") Communiqué II-14.1 on the Principles of Financial Reporting in Capital Markets ("Communiqué"), are presented to our shareholders and the public.

The members of the Board of Directors, their terms and limits of their powers are shown below.

Board of Directors	
Name & Lastname	Title
Yıldırım Ali KOÇ	Chairman
Levent ÇAKIROĞLU	Vice Chairman (*)
Selin Ayla ÜNVER	Member (*)
Osman Turgay DURAK	Member
Kudret ÖNEN	Member
Ahmet Serdar GÖRGÜÇ	Member – General Manager
Ahmet Nezih OLCAY	Independent Member
Ali İhsan KAMANLI	Independent Member
Kenan GÜVEN	Independent Member

Members of the Board of Directors, except for Selin Ayla Ünver, have been elected at the General Assembly Meeting on 15 March 2018 to serve until the next Ordinary General Assembly Meeting where 2018 activities will be reviewed.

The provisions pertaining to the Board members are set out in Articles 11, 12 and 13 in the Articles of Association, and the provisions of the Turkish Commercial Code.

(*) Since Halil İbrahim Ünver, who was elected to the Board of Directors at the Ordinary General Assembly on 15 March 2018 passed away on 6 September 2018, Board of Directors resolved on 22 October 2018 to appoint Levent Çakiroğlu as Vice Chairman, and Selin Ayla Ünver as a member of the Board of Directors to complete the term of the deceased member, pursuant to Article 363 of the Turkish Commercial Code.

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

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

GENERAL ASSEMBLY

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ A.Ş.

BOARD OF DIRECTORS' REPORT FOR THE PERIOD 01.01.2018 - 31.12.2018

Capital and Shareholding Structure

As of 31 December 2018, the company's registered capital ceiling is TL 100 million, and the issued capital is TL 24 million. Following is a list showing shareholders with more than 10% of the company capital, their shares, and their ratio in the capital:

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

The majority shareholder, 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. Remaining shares in the nominal amount of TL 7,322,306 corresponding to 30.51% of the capital consist of other shareholders and free floating shares.

Information on the subsidiaries and joint ventures included in the company's consolidated financial statements are listed below:

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

Since the operations of Otokar Land Systems LLC did not materially affect the Group's financial statements in the previous period, they were not included in the consolidation, and recorded under "Financial investments" heading in the books. Given that the activities of Otokar Land Systems LLC reached a sizeable amount in 2018 in terms of the Group's financial statements, the subsidiary has been included in the scope of consolidation starting from 1 October 2018.

The financial activities of "Otokar Europe Filiala Bucuresti S.R.L.", established on 28 February 2018 to organize the export activities of the Group's subsidiary Otokar Europe SAS in Romania and to increase international sales, particularly in the region, reached a sizeable amount in 2018 in terms of the Group's financial statements, and the subsidiary has been included in the scope of consolidation starting from 1 October 2018.

Al Jasoor Heavy Machinery Industry LLC (Al Jasoor), owned by the Group's subsidiary Otokar Land Systems LLC with 49% stake, was established on 28 May 2017 in the United Arab Emirates (UAE) to engage in automotive sales and marketing. Al Jasoor company is monitored in the consolidated financial statements under "Investments valued by equity method".

Amendments to the Articles of Association:

No amendments were made to the Articles of Association at the Ordinary General Assembly Meeting on 15 March 2018.

GENERAL ASSEMBLY

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ A.Ş.

BOARD OF DIRECTORS' REPORT FOR THE PERIOD 01.01.2018 - 31.12.2018

Dividends Distributed in the Last Three Years and Ratios:

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

Period	%
2015	300.00
2016	250.00
2017	291.67

The company paid the dividends pertaining to the 2017 accounting period to the shareholders in full and cash starting on 22 March 2018.

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

AUTOMOTIVE INDUSTRY AND OTOKAR

Otokar operates in the automotive industry's commercial vehicles segment. Its product range consists of minibuses, midibuses and buses that are preferred for public transportation services and shuttle transportation for the commercial market. On the other hand, the product lines also includes various types of tactical wheeled and tracked armored defense vehicles for the defense industry services. The company also manufactures trailers and semi-trailers under the Otokar-Fruehauf brand for the transportation and logistics industry, and light trucks under the Atlas brand.

Given the recent recession observed in the trailer market and the low growth anticipation for this market, the production activities focus on other product lines with high added value.

The company successfully completed the first phase of the Altay main battle tank project involving design, prototyping and qualification processes, and the contract for serial production was awarded to another contender.

MARKET – SALES – PRODUCTION

The developments of 2018 specific to the industry can be summarized below in line with the OSD (Automotive Manufacturers Association) data:

- Total vehicle production in 2018 declined 9% year on year, down to 1,550,150 units while automobile production also dropped 10% down to 1,026,461 units.

In 2018, the transportation vehicle market was down to 641,541 units with 35% decrease year-on-year, while the passenger car also regressed 33% down to 486,321 units.

Year on year developments in production by product groups are provided below.

- Light Commercial Vehicles Segment
 - 3% increase in minibuses
 - 11% increase in midi-buses
 - 7% increase in pickup
- Heavy Commercial Vehicles Segment
 - 5% increase in buses
 - 18% increase in large size trucks
 - 36% increase in small size trucks
- In 2018, domestically produced light commercial sales decreased 46%, and imported light commercial vehicles 39%, year on year.

In this period, imports accounted for 50% of the light commercial vehicle (minibuses + pickup trucks) market.

GENERAL ASSEMBLY

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ A.Ş.

BOARD OF DIRECTORS' REPORT FOR THE PERIOD 01.01.2018 - 31.12.2018

PRODUCTION AND SALES

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

	2018		2017		Change (Units)		Change (%)	
	Production	Sales	Production	Sales	Production	Sales	Production	Sales
Small Bus	1,123	1,170	1,319	1,492	(196)	(322)	(15)	(22)
Bus	594	520	493	539	101	(19)	20	(4)
4x4 Off-road Vehicles	-	2	30	30	(30)	(28)	(100)	(93)
Armored Vehicles	195	190	435	433	(240)	(243)	(55)	(56)
Trailer	149	171	355	332	(206)	(161)	(58)	(48)
Truck	457	229	430	361	27	(132)	6	(37)
Total	2,518	2,282	3,062	3,187	(544)	(905)	(18)	(28)

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

The company's 2018 revenue decreased 6% year on year.

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

	2018 (TL Thousand)	2017 (TL Thousand)	Change (%)
Domestic Sales	586,237	1,238,732	(53)
Exports	1,092,424	546,540	100
Total	1,678,661	1,785,272	(6)

The company's exports amounted to USD 211,073,000 in 2018 (USD 149,264,000 in 2017), accounting for 65% of the total turnover. (2016: 31%)

In 2018, capacity utilization was 19%. (2017: 23%)

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

INVESTMENTS

The Otokar's investment in R&D activities, which started several years ago following a major decision to accelerate research and development with the aim of attaining the rapid growth targeted in vehicles with owned intellectual property rights, continued in 2018.

The company's total investments amounted to approximately USD 5.5 million in 2018.

GENERAL ASSEMBLY

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ A.Ş.

BOARD OF DIRECTORS' REPORT FOR THE PERIOD 01.01.2018 - 31.12.2018

ADMINISTRATIVE ACTIVITIES

The names and positions of the Senior Executives of our company in 2018 are listed below:

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

Murat Ulutaş, who served as Assistant General Manager – Engineering since 1 January 2006, voluntarily resigned from the company on 18 January 2019.

Number of Group employees as of yearend:

Yearend	31.12.2018	31.12.2017
Office employees	630	669
Field employees	1,336	1,478
Total	1,966	2,147

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

The 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.

The company has agreed to comply with the Corporate Governance Principles promulgated by the Capital Markets Board, and to undertake necessary improvements 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 with Corporate Governance Principles. The "Corporate Governance Rating Report" is available on the corporate website at www.otokar.com.

The company's Corporate Governance Rating rose from 93.32 (9.33) in 2017 to 93.51 (9.35) in 2018.

With activities aimed at creating long-term value by combining economic, environmental and social aspects with corporate governance principles, Otokar has been listed in the BIST Sustainability Index for the fourth consecutive time.

2017 Otokar Sustainability Report is available on the corporate website at www.otokar.com.

GENERAL ASSEMBLY

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ A.Ş.

BOARD OF DIRECTORS' REPORT FOR THE PERIOD 01.01.2018 - 31.12.2018

FINANCIAL RESULTS

The company presents to the public its 2018 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", II-14.1. Annexes and comments related to these standards were also considered in preparing the financial tables.

The financial tables, notes, and ratios showing the results of the activities in 2018 are also presented for your information.

The consolidated revenues of the company as of 2018 yearend amounted to TL 1,678,661,000, with gross profit of TL 592,957,000.

Pursuant to CMB regulations and according to consolidated financial statements prepared in accordance with Turkish Financial Reporting Standards, the company has posted a profit of TL 121,145,000 before tax, and a net profit of TL 164,336,000 in 2018.

At the Annual General Assembly Meeting on 15 March 2018, the upper limit for donations to be made by the company in 2018 was set at 0.2% of the previous year's revenues, and the company provided donations and aid amounting to TL 629,000 for charitable purposes.

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

In accordance with the Profit Distribution Proposal annexed herein, we present to your approval that:

shareholders, shareholders in unlimited taxpayer status and shareholders in limited taxpayer status, who earn profit share through a business unit or a permanent representative in Turkey be paid TL 3.00 gross=net cash dividend per one share with nominal value of TL 1.00 at the rate of 300.00%,

other shareholders be paid TL 2.55 net cash dividend per one share with nominal value of TL 1.00 at the rate of 255.00%, and

payment of the dividends amounting to TL 72,000 thousand start on Monday, 25 March 2019,

We have submitted an overview of the operations in 2018 and the generated results for your information.

Dear Shareholders,

The Board of Directors has completed its term today. New members of the Board of Directors will be elected for the next term at this meeting. We would like to extend our thanks to your esteemed delegation for your confidence in us and the attention and support during our term. We welcome you with warm regards.

Istanbul, 22 February 2019



Yildirim 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 2018 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 2018, and its financial performance and its cash flows for the year then ended in accordance with Turkish Financial Reporting Standards (“TFRS”).

Full text of the opinion pertaining to the Independent Audit Report is presented on page 82.

GENERAL ASSEMBLY

SUMMARY OF FINANCIAL TABLES

Consolidated Balance

Thousand TL	2018	2017
Total Current Assets	1,802,481	1,631,551
Non-current Assets	500,265	378,036
Total Assets	2,302,746	2,009,587
Total non-current Liabilities	868,140	1,072,319
Total Liabilities	1,045,020	653,714
Total Equity	389,586	283,554
Total Liabilities and Equity	2,302,746	2,009,587

Consolidated Income Statement

Thousand TL	2018	2017
Sales	1,678,661	1,785,272
Cost of Goods Sold	(1,085,704)	(1,313,646)
Gross Profit	592,957	471,626
Operating Profit	231,412	225,714
Profit before Tax	121,145	90,706
Tax Income/Expense	43,191	8,717
Net Profit for the Period	164,336	99,423
Earnings Per Share (kr)	0.685	0.414

GENERAL ASSEMBLY

BOARD OF DIRECTORS



Yıldırım Ali Koç
Chairman

Ali Y. Koç (born 1967, Istanbul) received his bachelor's degree from the Management Faculty of Rice University and MBA from Harvard Business School.

Mr. Koç started his career at American Express Bank as a Management Trainee and continued as an Investment Analyst at Morgan Stanley Investment Bank. He joined Koç Holding in 1997 and held senior-level positions until 2010 including new business development and information Technologies as well as President of Corporate Communications and IT Group. After serving as Member of the Board of Directors at Koç Holding for over 8 years, he was elected as Vice Chairman in February 2016. Since April 2016, Ali Y. Koç also serves as Chairman of the Board of Directors of Koç Financial Services, Yapı Kredi Bank, Ford Otosan, Otokar as well as several other Koç Group companies. In addition to being Chairman and Vice Chairman at Turkey's largest companies and financial institutions, he also contributes to the country's social and economic development and currently is the President of Fenerbahçe Sports Club and the National Competition Research Association (URAK), Member at the Foreign Economic Relations Board (DEİK), Member of the Global Advisory Council of Bank of America, Harvard University and Council on Foreign Relations. He is also a Member of the Panel of Senior Advisers at Chatham House and recently joined the Trade and Investment Council at the Confederation of British Industry.

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



Levent Çakıroğlu
Vice Chairman

Levent Çakıroğlu (born 1967, Ankara) received his bachelor's degree in Business Administration from Ankara University's School of Political Sciences and his master's degree from Illinois University (USA).

Mr. Çakıroğlu began his career in 1988 as a Financial Analyst at the Ministry of Finance. After teaching at Bilkent University as Part-time Lecturer (1997-1998), he was appointed as Vice President of the Financial Crimes Investigation Board at the Ministry of Finance. After joining Koç Holding as Finance Group Coordinator in 1998, he served as CEOs of Koçtaş (2002-2007), and Migros (2007-2008). He was appointed as the CEO of Arçelik in 2008, and also served as the Koç Holding Durable Goods Group President from April 2010. He was appointed as the CEO of Koç Holding A.Ş. in April 2015. Mr. Çakıroğlu currently serves as the CEO and has been a Board Member of Koç Holding A.Ş. since April 2016.

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



Selin Ayla Ünver
Board Member

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

Ms. Ünver is a non-executive director, but does not qualify to serve as an independent board member according to CMB Corporate Governance Principles. Ms. Ünver, whose appointments in the last decade are stated above, serves on the Board of Directors at 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 (1986), and then became Chief Deputy General Manager (2000), and later General Manager at Ford Otosan (2002). After serving as the President of the Automotive Group at Koç Holding (2007-2009), Mr. Durak was appointed Deputy Chief Executive at Koç Holding (May 2009), and then CEO and Board Member of Koç Holding (April 2010-April 2015). Mr. Durak also served as the Chairman of the Automotive Manufacturers Association for six years (2004-2010).

Mr. Durak is a non-executive director, but does not qualify to serve as an independent board member according to CMB Corporate Governance Principles. Mr. Durak, whose appointments in the last decade are stated above, has been a Board member at Otokar since 2010. He also serves on the Boards of several Koç Group companies.

GENERAL ASSEMBLY

BOARD OF DIRECTORS



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 at Koç Holding (1980), and then became Assistant General Manager at Otokar (1984) where he later served as General Manager. After serving as the Co-President of the Supply Industry and Other Automotive Companies Group in Koç Holding (2005-2006), he served as the President of the Defense Industry, Other Automotive Companies and Information Group of Koç Holding (2006-2016). Mr. Önen has been serving as the President of the Automotive Manufacturers Association since 2010, Chairman of the Turkish Employers' Association of Metal Industries (MESS) since April 2016, and Chairman of the Turkish Confederation of Employer Associations since December 2016.

Mr. Önen is a non-executive director, but does not qualify to serve as an independent board member according to CMB Corporate Governance Principles. Mr. Önen, whose appointments in the last decade are stated above, has been a Board member at Otokar since 2006. He also serves on the Boards of several Koç Group companies.



Ahmet Serdar Görgüç
Board Member
General Manager

Ahmet Serdar Görgüç (born 1959, Izmir) graduated from the Department of Mechanical Engineering at Boğaziçi University and later earned a master's degree in Business Administration from Istanbul University.

Mr. Görgüç joined Koç Group in 1982, working at the Group's R&D Center. He served as the Automotive Unit Manager at the R&D Center until 1985, and was appointed Advanced Projects Design Manager at Otokar the same year. Mr. Görgüç served as Product Engineering Manager (1989-1995), and as Assistant General Manager of Engineering (1995-2005). He has been the General Manager of Otokar since 2006.

Mr. Görgüç is an executive director and does not qualify to serve as an independent board member according to CMB Corporate Governance Principles. Mr. Görgüç, whose appointments in the last decade are stated above, has been a Board member at Otokar since 2006. He also serves on the Boards of several Koç Group companies.



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 Member and Vice Chairman. He then served as General Coordinator, Vice Chairman and later as Chairman of the Board of Directors at Plastikform Sanayi ve Ticaret A.Ş. (2008-2012).

Mr. Olcay, who does not have executive duties, qualifies as an independent board member according to CMB Corporate Governance Principles. Mr. Olcay is a Board member at Otokar since 2014.



Ali İhsan Kamanlı
Independent Board Member

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

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



Kenan Güven
Independent Board Member

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

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

GENERAL ASSEMBLY

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

Our company distributes its profit in accordance with the provisions of the Turkish Commercial Code, the Capital Markets Law, the Tax Law and other applicable regulations as well as the relevant articles of our company's Articles of Association. In profit distribution, balance and consistency are ensured between the shareholders and the company's interests in accordance with the Principles of Corporate Governance, and the company's long-term strategy, investment and financing policies, profit margins and cash position are also considered.

In principle, minimum 50% of the distributable period profit, which is calculated in accordance with Capital Market Legislation/Legal Record, is distributed in cash and/or as bonus shares to the extent allowed by applicable legislation and financial position.

Dividends are intended for payment within maximum one month following the General Assembly meeting but the actual date is decided by the General Assembly. The date for the profit distribution is set in the Ordinary General Assembly Meeting. General Assembly, or the Board of Directors, if authorized, may resolve to pay dividends 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 by the General Assembly and complies with Capital Market Regulations. The authority granted to the Board of Directors by the General Assembly for distributing profit advances is limited with the year in which resolution is reached.

GENERAL ASSEMBLY

PROFIT DISTRIBUTION PROPOSAL FOR THE ACCOUNTING PERIOD 01.01.2018-31.12.2018

Annex to Board of Directors resolution no. 2019/05 dated 15 February 2019

According to the consolidated financial statements for the 01.01.2018-31.12.2018 accounting period, which are prepared in compliance with the Turkish Accounting Standards/Turkish Financial Reporting Standards (TAS/TFRS) and annexes and notes thereof enforced by the Public Oversight Accounting and Auditing Standards Authority (KGK) pursuant to Capital Markets Board's (CMB) "Communiqué on the Principles Financial Reporting in Capital Markets", numbered II-14.1, and audited by PwC Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş., a net profit of TL 164,335,688 has been posted for the parent company. The dividend distribution proposal, prepared by taking into account the long-term corporate strategy, capital requirements, investments and financing policies, profitability and cash position of the company, is presented below. If the proposal is approved with the decision of the General Assembly, the dividend payment will start on 25 March 2019.

Otokar Otomotiv ve Savunma Sanayi A.Ş. Profit Distribution Statement 2018 (TL)

1.	Paid-in/Issued Capital		24,000,000
2.	Legal Reserves (based on Legal Records)		66,678,147
	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	121,145,173	125,477,082
4	Taxes Payable (-)	(43,190,515)	-
5	Net Profit for the Period (=)	164,335,688	125,477,082
6	Retained Losses (-)		
7	Legal Reserves (-)		
8	NET DISTRIBUTABLE PROFIT FOR THE PERIOD (=)	164,335,688	125,477,082
9	Donations made during the year (+)	628,950	
10	Donations Included Net Distributable Profit for the Period	164,964,638	
	Primary Dividend to Shareholders		1,200,000
11	- Cash	72,000,000	
	- 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		70,800,000
16	Legal Reserves	7,080,000	7,080,000
17	Statutory Reserves		
18	Special Reserves		
19	EXTRAORDINARY RESERVES	85,255,688	46,397,082
20	Other Funds Proposed to be Distributed		
	- Retained Earnings		
21	Legal Reserves Allocated for Other Sources as Proposed to be Distributed		-

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	-	72,000,000.00	0	43.81%	3.00000	300.000
	TOTAL	72,000,000.00	0	43.81%	3.00000	300.000
Net	-	61,200,000.00	0	37.24%	2.55000	255.000
	TOTAL	61,200,000.00	0	37.24%	2.55000	255.000

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

Levent Çakıroğlu (Board of Directors Candidate)

See Page 28 Board of Directors' Resumes

Selin Ayla Ünver (Board of Directors Candidate)

See Page 28 Board of Directors' Resumes

İsmail Cenk Çimen (Board of Directors Candidate)

İsmail Cenk Çimen (born 1967, İstanbul) studied Industrial Engineering at Istanbul Technical University, and later attended Executive Development Programs at University of California, Los Angeles and Stanford University. Joining the Koç Group as a Management Trainee at Nasoto (1991), he went on to serve as Sales Coordinator, Regional Director and Import Director at Otosan Pazarlama (1993-1996). Following his position as Fleet Sales Manager at Ford Otosan (1996-1998), he was appointed General Manager at Otokoç Ankara (1998). Mr. Çimen became the General Manager of Otokoç, which were brought together under one umbrella, in 2001. In addition to his role at Otokoç. Mr. Çimen was also appointed General Manager of Birmot A.Ş. in 2005, and management of Avis rent a car business was added to his responsibilities the same year. İsmail Cenk Çimen is the President of the Automotive Group at Koç Holding since June 2009. Mr. Çimen is a non-executive director, but does not qualify to serve as an independent board member according to CMB Corporate Governance Principles. Mr. Çimen, whose appointments in the last decade have been stated above, currently serves on the Boards of several Koç Group companies.

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)

See Page 29 Board of Directors' Resumes

Kenan Güven (Board of Directors Candidate)

See Page 29 Board of Directors' Resumes

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

GENERAL ASSEMBLY

DECLARATION OF INDEPENDENCE

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 criteria. Accordingly, I declare that:

- a) There has been no employment 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; and 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 material commercial relation thereof,
- 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 procures 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 expected of my title as an Independent Board Member,
- d) I will not work in state institutions or organizations on a full time basis, except for serving in the capacity of an academic in accordance with legislation,
- e) I am a resident in Turkey according to the Income Tax Code (GVK) No. 193 dated 31/12/1960,
- f) I possess the sound ethical standards, 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 and the company, and to decide freely by considering the rights of the stakeholders,
- g) I am capable of devoting time to the company’s work to the extent that I may follow the operations of the company’s activities and fulfil the requirements of my mandate,
- h) I have not served as a board member on the company’s Board for more than six years in the last ten 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 publicly traded companies in total, and
- j) As a Board Member, I am not registered or announced on behalf of the selected legal entity.



AHMET NEZİH OLCAY



ALİ İHSAN KAMANLI



KENAN GÜVEN

GENERAL ASSEMBLY

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

This policy document, in line with CMB regulations, defines the remuneration system and practices concerning the Board Members and Senior Management with administrative responsibilities.

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

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

A bonus, which is determined by the Board of Directors in consultation with the Corporate Governance Committee, can be paid to the Executive Board Chair and members who provide effective support to the company's functioning in all aspects, upon consideration of their contributions, attendance in the meetings, and functions, etc. at the end of the year. If Executive Board Members have received payments as advance for such bonuses during the year, these amounts will be deducted from the yearend bonus.

Payment plans based on the performance of the company are not applied to the remuneration of independent members of the Board of Directors.

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 (such as transportation, telephone charges, insurance costs, etc.) incurred by members of the Board of Directors on account of providing contributions to the company 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 line with international standards and legal obligations, and by taking into account macroeconomic data in the market, salary policies prevailing in the market, the size and long-term targets of the company and the positions of the individuals.

Bonuses for Senior Management are calculated according to the bonus base, the performance of the company and individual performance. A summary of the criteria is as follows:

- **Bonus Base:** Bonus bases are updated at the beginning of each year, and vary depending on the work volume of the positions of the senior executives. 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 assessed at the end of the year by measuring the financial and operational targets (market share, exports, international operations, efficiency, etc.) assigned to the company at the beginning of each year. In setting the company's targets, ensuring sustainable success and achieving improvements over the previous years are considered as key principles.
- **Individual Performance:** In addition to the company's targets, goals related to employees, customers, processes, technology and long-term strategy are also taken into account in measuring an individual's performance. In line with the performance of the company, the principle of achieving long term sustainable improvement in areas other just financial aspects is observed in measuring individual performance.

In the event that any Senior Executive resigns from their post, a resignation premium may be paid by taking into consideration the term of appointment, tenure of senior executive, contribution provided, last target bonus before resignation date, salary in the final year and premium information.

The total amounts that are determined according to the principles stated above and paid to members of the Board of Directors during the year are submitted to the approval of the shareholders at the next Ordinary General Assembly.







SULTAN MEGA, WITH A
SIGNIFICANTLY LARGER
LUGGAGE COMPARTMENT,
INCREASED ITS SHARE IN THE
TURKISH MARKET IN 2018.

COMMERCIAL VEHICLES



OTOKAR VEHICLES CONTINUED TO CARRY MILLIONS OF PASSENGERS EVERY DAY IN 2018 IN NUMEROUS CITIES ACROSS THE WORLD.

In 2018, total bus market in Turkey shrank by 29 percent. Small and medium size bus market shrank by 23 percent, while city bus market which consists of 12 meter and longer vehicles shrank by 50 due to the significant negative effect of exchange rate fluctuations on the demand. Showing similar negative developments, the market of light trucks with 6.5-8.5 ton gross vehicle weight shrank by 18 percent, and trailer market shrank by 22 percent in 2018.*

For over 55 years, Otokar has been designing and developing public transportation, personnel shuttle and tourism transportation buses, all of which currently carry millions of passengers in 50 countries. Otokar proudly offers the widest bus lineup in Turkey, with products ranging from 7 meters up to 18.75 meters in length, and despite the shrinking bus market,

it has come to the forefront in the total of the segments in which it operates, thanks to delivered orders of public transportation, personnel shuttle and tourism transportation buses. Otokar continued to be Turkey's most preferred brand in its own segments while almost one of every three buses sold in 2018 in the domestic market was Otokar branded.

Deliveries of city buses, which Otokar offers with customized solutions according to customer needs, spread across the country from Mardin and İzmir to Tekirdağ and Antakya. In the personnel shuttle and tourism transportation, Sultan Mega and Doruk T buses, which were renewed and reintroduced to the market last year, stood out. Sultan Mega, with a significantly larger luggage compartment, increased its share in the Turkish market.

2,158 commercial vehicles sold in 2018

With the domestic market shrinking in 2018, Otokar accelerated exports and achieved 39 percent increase in export units, with the sales of 754 vehicles. With continued success in the total bus market abroad, Otokar's vehicle fleet rose to total 2,850 units in France, Italy and Spain, the largest export markets of the company. Otokar showed particularly high performance in the public transportation segment abroad, and won the Bucharest Municipality's tender for 400 city buses. As part of the contract, the largest export deal for a single item by a Turkish bus brand, the deliveries have already started. Otokar will also provide the Bucharest Municipality with aftersales services of the vehicles for eight years. Once the deliveries are completed, Bucharest will become the next metropolis with the largest Otokar fleet after Istanbul. After winning the contract for 100 buses by the City of Amman, capital of Jordan, Otokar received an additional order for 35 more buses. In 2018, another contract signed by Otokar was for the Transportation Authority of the Warsaw Municipality. Arriva, Europe's largest passenger transportation company, chose Otokar's Vectrio bus to provide transportation services in Warsaw. Ulyso T was introduced to the German market at the IAA Commercial Vehicles Fair, and promoted to operators in nearly 20 cities in Spain. Otokar's natural gas powered bus Kent CNG serving successfully in Turkey were also exported to Spain for the first time. As a result, Otokar's vehicle park in Spain increased by 27 percent year on year. Vehicles were also exported to Germany, France and Tunisia.

In 2018, Otokar vehicles continued to carry millions of passengers every day



in numerous cities in Turkey as well as other countries including Spain, Serbia, Germany, Italy, Greece, Belgium, Romania, Poland, Hungary, Slovenia, Malta, Cameroon, and Jordan.

Otokar continued its operations in the light truck segment, which the company entered in 2013, with the 8.5-ton Atlas truck. Throughout the year, Atlas trucks were sold to private users that prefer the brand as well as public institutions and organizations to be used in demanding tasks. Atlas, which turns its strong performance into profit with its environment friendly and economic engine, gained new customers alongside current users thanks to its low fuel consumption, low maintenance costs and affordable spare parts. The market share of Atlas trucks rose to 13 percent* with a year-on-year increase of three percentage points.

Otokar also continued its operations to meet the demand of the Turkish trailer market in 2018. With a wide range of products aligned with customer needs and expectations, the company kept working in the areas of hazardous goods transportation, perishable food transportation and domestic transportation.



*Calculation is based on market research conducted by Otokar and OSD data, and the figure represents an approximate ratio.

DEFENSE INDUSTRY

TODAY, OTOKAR ALSO COMES TO THE FOREFRONT IN THE DEFENSE INDUSTRY WITH ITS TECHNOLOGY TRANSFER CAPABILITIES.



As defense spending increased worldwide, the global defense industry saw a record growth of 3.9 percent in 2018. Meanwhile, Turkey left behind a year when local and national means and capabilities were enhanced and the defense industry's exports brought the country closer to its goal of becoming a major global player.

In addition to a product range of tactical wheeled and tracked armored vehicles, Otokar also designs, develops and manufactures turret systems, all according to users' needs and expectations, and exports defense products with the permission of relevant governments. As these activities continue, Otokar also comes to the forefront in the defense industry with its technology transfer capabilities.

Serial production of Rabdan 8x8 tactical wheeled armored vehicles, as part of the deal that Al Jasoor, established with the jointly efforts of Otokar and its local partner Tawazun, signed with the UAE Armed Forces commenced. In accordance with the USD 661 million contract, which also happens to be Turkey's largest land systems export deal signed for a single item, the production of Rabdan armored combat vehicles started at the Otokar plant in Sakarya. The first Rabdan armored vehicles out of serial production successfully completed acceptance tests at the plant as well as amphibious and firing tests in the Gulf. Following the delivery of the first lot late last year, the vehicles were included in the inventory of the United Arab Emirates Armed Forces, one of

30+ countries

55 clients

the world's leading armored vehicle markets in the defense industry.

As a registered NATO and United Nations supplier, Otokar continues to be preferred for its technology, design and applications tailored to the needs of the users by the armed forces and security forces of friendly and allied countries. In 2018, the company received an order worth USD 28.9 million from an Asian country for Cobra II armored vehicles, which stand out with their high payload and protection capabilities. Cobra II has also been in demand in the domestic market. Cobra II vehicles which were delivered to the security forces, also joined the Turkish Armed Forces as Mortar Detection Radar Vehicle in December 2018.

The design process and the qualification and acceptance tests of the prototypes produced in Phase I of the main battle tank Altay were successfully completed, and prototypes were delivered to the Presidency of Defense Industries. The serial production contract was awarded to another contender.

Otokar's vast experience in designing and developing armored vehicles, particularly the main battle tank, has been reflected on to new products. Light weight class tanks, which serve effectively as reconnaissance and firing support vehicles in modern armies, come to the forefront in the industry as a growing need, given the changing combat conditions and diversified threats. In line with this trend, the Tulpar Light Tank, developed by Otokar with its experience, engineering capabilities and R&D opportunities by considering the expectations of users worldwide,



successfully completed the firing tests in 2018 and later debuted in Paris.

Otokar, as the only land vehicles manufacturer with national capital in Turkey, has the means and capabilities to design, develop, engineer, test and qualify vehicles for the defense

industry. As the company continues to promote its products by exhibiting at international defense and security fairs in target markets, more than 30 thousand products with Otokar-owned intellectual property rights are currently used by 55 different clients in more than 30 countries.

R&D ACTIVITIES



AIMING TO DEVELOP VARIOUS EQUIPMENT, DEVICES AND APPLICATIONS FOR FUTURE NEEDS, OTOKAR SPENT TL 1 BILLION IN 2018 ON R&D EXPENDITURES.

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 is equipped with simulators, test equipment and computer systems to generate and evaluate information for faster testing of manufactured vehicles with higher technology. The Otokar R&D Center houses a Climatic Test Chamber with Dynamometer, the one and only of its kind in Turkey, and among a handful in

Europe, and Turkey's highest capacity hydraulic road simulator. The Center is also home to Turkey's largest and the world's best state-of-the art Electromagnetic Compatibility Test Center (EMC/EMI), which serves as an independent accreditation center for all R&D activities of domestic and foreign automotive and defense industries.

In the last decade Otokar's R&D expenditure amounted to TL 1 billion. 8.47 percent of the company's revenues in the last ten years have been allocated for research and

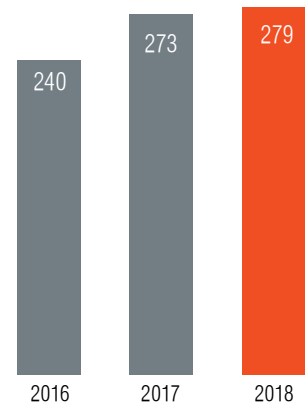
422 R&D Center employees

development activities. Otokar has also filed applications for six patents in 2018 while the number of employees working at the R&D Center rose to 422.

In 2018, Otokar also participated in the Appstacle project, which aims to define next generation automotive standards in the world and will become an open source smart application ecosystem for vehicles. Appstacle, in which Otokar takes part together with KoçSistem (a Koç Group company), is carried out jointly by Turkey, Germany, Finland and France

as project partners. The project aims to include an open and secure cloud platform that interconnects a wide range of vehicles to the cloud via open in-car and Internet connection and is supported by an integrated open source software development ecosystem. Otokar is the only vehicle manufacturer to participate in the Appstacle workshops and is tasked with enabling the integration of various scenarios that can be tried on the vehicles. One of the periodic workshops of the project was held in 2018 at the Otokar plant in Sakarya.

PATENT AND INDUSTRIAL DESIGN APPLICATIONS



CREATING VALUE FOR STAKEHOLDERS



OTOKAR CONTINUED TO IMPLEMENT PRACTICES TO FACILITATE THE LIVES OF USERS AND TO CREATE VALUE FOR ITS STAKEHOLDERS IN 2018.

Users

As a company fully aware of the importance of aftersales services, Otokar continues to facilitate the lives of users. Otokar, which guides the industry with innovative tools, R&D activities and the technologies designed in line with user expectations, launched the smart assistant app developed within the scope of its digital transformation vision in 2018 for commercial vehicle owners. Using the app developed for Android and iOS phones, vehicle owners can perform over ten transactions with one click.

In order to increase the satisfaction that its products provide and to create benefits for customers, Otokar launched in late 2018 original Otokar

Spectra lubricants, developed for both commercial and defense vehicles, at authorized aftersales service centers and spare parts dealers. By offering Otokar Spectra, Otokar aims to provide additional benefits to the users with products such as engine, transmission and axle lubricants, and antifreeze, which are a key component of vehicle maintenance in the automotive industry. Accordingly, the standards for lubricants to be used in Otokar vehicles were defined with the objective of further enhancing the performance of the vehicles. For this purpose, Otokar decided to work with Opet Fuchs, which comes to the forefront with its leadership, experience and international knowhow in the industry. The lubricants born from this

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TL 1,2+

billion 2018 procurement expenditure

cooperation were branded as Otokar Spectra. Otokar recommends Otokar Spectra, the original lubricant brand that can be used safely in Otokar vehicles, to ensure longer maintenance periods and improved engine life for the vehicles manufactured by the company. Otokar Spectra, which was developed through Opet Fuchs engineers' R&D activities, is sold in the market as an original lubricant with official approval for all Otokar vehicles.

Suppliers

Otokar's procurement from 750 suppliers exceeded TL 1.2 billion in 2018. Local parts manufacturers and supply industry businesses constituted 51 percent of these suppliers.

Efficiency

Otokar values projects to enhance efficiency and encourages suggestions, especially those submitted within the company. In 2018, employees submitted 1,711 suggestions via the Otokar Suggestion System. “Koç for Koç” project that Otokar carried out together with Ford Otosan won first prize in the “Collaborators” category of the “Most Successful Koç Employees” competition, which is organized annually by Koç Group to discover and reward the best practices and projects toward the Group’s vision and goals.



SUSTAINABILITY

**ENHANCEMENTS TO INCREASE
ENVIRONMENTAL PROTECTION
AND OCCUPATIONAL
HEALTH&SAFETY IN OTOKAR'S
PRODUCTION LINES CONTINUED
THROUGHOUT THE YEAR.**



Otokar's sustainability strategy is built on being environment friendly, firmly committing to and upholding ethical business principles, aiming for operational excellence and fully meeting client expectations to preserve its national shareholding structure and to increase profitability through a business model focused on developing highly technological value added products. Otokar adopts and actively supports UN Global Compact Principles signed by Koç Holding in 2006 on behalf of all Group companies. The activities that the company 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. In 2018, Otokar has been included in the Borsa Istanbul (BIST) Sustainability Index for the fourth time, becoming one of the 50 companies listed in the November 2018 – October 2019. Otokar's successful sustainability activities and practices are described in detail in the Sustainability Report, which can be accessed on the corporate website: www.otokar.com

Environment

Otokar undertook several activities in 2018 for the development of

1,589 employees

19,068 hours
OHS Training

4th time

in BIST Sustainability Index

environment-friendly products and production processes as one of the key topics of its sustainability program. Enhancements to increase environmental protection, and occupational health and safety in production lines continued through the year. Practices and applications such as energy saving luminaires for environmental improvement, efficient engines, automation and water savings have all been implemented to achieve energy and natural resource savings. These projects were shared with the Koç Holding Energy Group and earnings were reported in detail to relevant parties. Furthermore, the guide prepared within the scope of cooperation with the Environment and Energy Investments Incentive Group led by Otokar in the Koç Holding Environment Committee was shared with and spread across all Koç Group companies. Otokar was also shortlisted in the “Adding Value to the Environment and Community” category in the Most Successful Koç Employees competition. The “Airing the Water” project involved changing the working principles of the pressurized air blowers used for meeting the oxygen demand of the Wastewater Treatment Plant and the ensuing system enhancements brought energy savings while also highly improving the quality and efficiency of the treated water.

In 2018, several trainings were delivered to raise environmental and energy efficiency awareness. Nearly 250 students in four elementary schools were provided with information about what needs to be done for the environment, energy and sustainability. Furthermore, situation

assessments were carried out and trainings were hosted to inform, improve and update more than 100 facilities of the suppliers, thus leading the way in helping the supply industry to develop in terms of environment and sustainability.

Corporate Social Responsibility

Otokar embraces the words of Vehbi Koç, the founder of Koç Holding, “We exist as long as our state and country exists” and acts on this principle to consider the society’s interests in all its endeavors. As part of the “I Support Gender Equality for My Country” project launched within Koç Group in 2015, Otokar became a signatory of the UN Women’s Empowerment Principles (WEPS) in 2017. Otokar continued its efforts focused on gender equality in 2018 and carried out various activities to support this topic. Members of the Otokar Running Club ran the Bodrum Half Marathon to draw attention to the importance of equal opportunities for women, and the donations made to the charity run went to Community Volunteers Foundation’s Young Women Fund.

Occupational Health and Safety

Otokar promotes a high quality workplace approach, and in the OHSAS 18001 certificate renewal process carried out in 2018 as well as the inspections carried out by the Ministry in the manufacturing site, no discrepancies were found. For the quarterly periodic inspection of the equipment used within the plant, an agreement was reached with a TURKAK-accredited firm and the inspections were launched. In addition to the risk assessments

of the work stations, machinery and areas, site audits were also conducted throughout the year and necessary actions were taken. Otokar’s accident frequency was recorded as 8.31 in 2018. Through the year, 18 Occupational Health and Safety Committee meetings were held to evaluate and plan the activities on this topic.

Otokar continued to provide occupational health and safety trainings in 2018. In this context, 46 newly hired employees and 433 interns received occupational health and safety training, and 1,010 employees took refresher training in occupational health and safety, amounting to 19,068 hours of training for 1,589 employees in total. Test and R&D drivers were given defensive driving trainings and included in the underwater free and scuba ascension trainings.

Otokar’s platform suggestion for working at heights with tankers of different dimensions was recognized at the 2018 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, bringing Otokar its fourth award in this competition.

HUMAN RESOURCES

OTOKAR MAINTAINS ITS COMPETITIVE ADVANTAGE AS THE COMPANY CONTINUES TO RENEW AND GROW, EMPOWERED BY ITS EMPLOYEES.



The objective of Otokar's Human Resources Policies is to ensure the continuous development and motivation of a qualified human resource and improve their commitment to the Otokar family. Recruitment policies, projects aimed at improving employee experience, training and development program are all shaped in line with this objective. Otokar's employer brand, "My Name is Otokar" was launched in 2018 to attract talent and offer them quality employee experience. With the sub-brands created under "My Name is Otokar" brand, various applications and communication activities were implemented to improve the employees' experience in a number of areas such as training, development, social life, recognition and rewarding.

Recruitment

In all recruitments, Otokar adopts the philosophy of "the right person for the right job", and uses a selection and placement system aimed at hiring creative, innovative and qualified workforce open to newness and aligned with the company's objectives. With recruitments carried out in this framework, the number of employees at Otokar was 1,966 as of 2018 year end. 40 percent of the office employees who were recruited in 2018 work as engineers at the R&D Center.

Training

One of the strengths of Otokar, which contributes to the employees' development in terms of both technical knowledge and experience as well as their personal improvement, is that

1,966 employees

the company is a great school for employees. Growing by renewing itself is among Otokar's priorities. For this purpose, Otokar brought together all training and development activities under the roof of OtoRota (Otokar's Route). As of 2018, the trainings are shared with the employees under the sub-brands Route Leadership, Route Development, Route Technical, and Route Digital. By transferring the cards that held information on training and development processes to Portokar (Otokar's Training Portal), digital training and development cards have been made accessible. Vocational training certification processes for approximately 200 employees have been completed.

In 2018, 14 different behavioral and nine different technical training were completed in 33 groups as part of educational development activities. The participation rates of Otokar employees in the behavioral trainings held in 18 groups were 53 percent in the 25-34 age group and 21.7 percent in the 35-39 age group. Overall, 72 percent of the Otokar employees with tenure ranging between 1 and 9 years participated in behavioral trainings. On the other hand, 68 percent of the office workers also participated in professional training (apart from behavioral training). 98 Team Leaders working in Production and R&D Departments were included in Training & Development Programs within the scope of "Be the Leader of Development!" project carried out with team leaders that manage field employees. Participation in the MESS Spot Trainings organized by MESS Education Foundation was recorded as 91.6 percent.



Overall, 74 managers attended the Koç Holding trainings, 69 attended Koç University trainings, 26 followed the e-trainings of Harvard Business School e-trainings, eight took Lead Digital trainings, five took Udacity trainings, and five attended the Executive MBA program. In total, 121 managers from different departments participated in the trainings offered on a variety of topics and functions. 60 percent of the female managers and 65 percent of the male managers took part in these programs.

Aiming to contribute to the career development of young generations by sharing its knowhow and experience, Otokar offered long-term internship for 66 students from various universities. Furthermore, 297 students from 57 universities worked at Otokar for their compulsory summer internships in 2018.

Events

Various events were organized for Otokar employees throughout the year to promote internal communication and increase motivation. Otokar employees, who are members of Employee Clubs participated in

several events. The employees that represented Otokar in the 29th Koç Group Sports Festival won third prize in the veteran football and tennis disciplines. Otokar also organized events that employees could attend with their families. In the "The Future is Child's Play..." event, which was held to introduce children to the magical world of STEM and show them that they can make their dreams come true, children of Otokar employees found the opportunity to practice with game design, robotic circuit design, three-dimensional design and physics experiments.

Volunteering

In addition to corporate social responsibility activities, Otokar also supports volunteering efforts carried out with the initiative of employees. In 2018, Otokar employees were involved in a number of meaningful activities such as providing food and building shelters from waste materials for stray animals, donating winter clothing for elementary school children, and clothing for children in prison through the Social Responsibility Club they formed.

INVESTOR RELATIONS

THE INVESTOR RELATIONS DEPARTMENT IS RESPONSIBLE FOR MANAGING THE TWO-WAY COMMUNICATION BETWEEN COMPANY EXECUTIVES, SHAREHOLDERS AND POTENTIAL INVESTORS.



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, except for confidential information and trade secrets, and in a manner not to lead to information disparities, and for establishing a two-way communication between company executives, shareholders and potential investors.

In 2018, the department attended 39 one-on-one investor meetings, including 13 abroad, and 4 conferences and roadshows,

including 2 international events. The department continued to provide information through the year by responding to written and verbal questions. Furthermore, the website, presentations and all other communication tools were regularly updated and shared with shareholders.

General Assembly

The company's Ordinary General Assembly will convene to review 2018 on Monday, 18 March 2019 at 10.00 am at Divan Istanbul Hotel, Asker Ocağı Cad. No. 1 Elmadağ, Şişli-İstanbul. The Ordinary General Assembly Agenda, Board of Directors' Annual Report including Independent Auditor's Report, Corporate Governance Compliance Report and Profit Distribution Proposal, as well as the agenda items and the

9.35 Otokar's Corporate Governance Rating Score

Information Documents that contain necessary disclosures for compliance with Capital Markets Board regulations will be made available for the shareholders to review at the company's Head Office and on the corporate website (www.otokar.com), Public Disclosure Platform (KAP), the Central Depository Institution's (MKK) e-Management, e-Company and e-General Assembly systems three weeks prior to the Ordinary General Assembly.

Corporate Governance

Corporate Governance Rating is an indication that the company complies with corporate governance principles to a great extent and will continue to improve its efforts for further compliance. As announced to the public on 21 March 2018 with a material disclosure, Otokar's Corporate Governance Rating measured by SAHA Corporate Governance and Credit Rating Services rose to 93.51 (9.35 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 BIST 100, Corporate Governance and Sustainability Indexes. The shares have seen the lowest TL 62.45 and the highest TL 129.80 in 2018. As a result of the evaluations by BIST, the company will continue to be included in the BIST Sustainability Index in 2019.

Analyst Recommendations

Among the ten investment firms that report actively on Otokar, six have

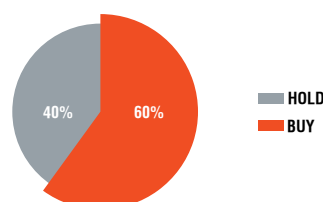
recommended BUY and four HOLD, based on their latest reports issued in 2018.

Profit distribution

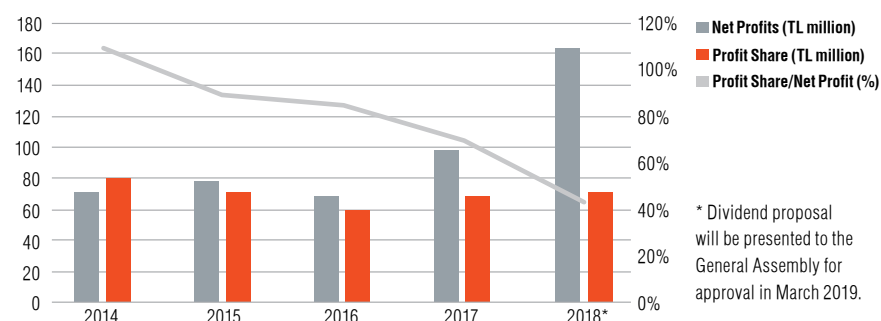
In 2018, Otokar paid TL 70 million

in gross dividends for 2017. 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.

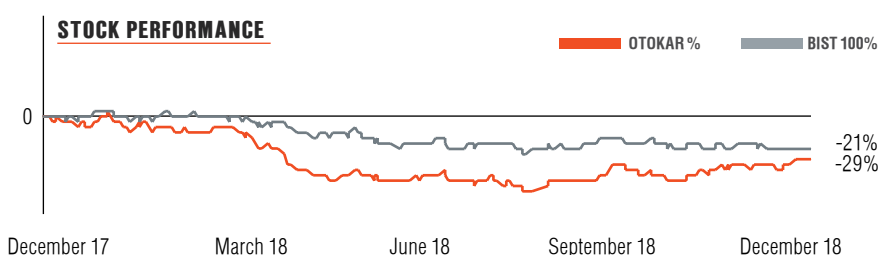
ANALYST RECOMMENDATIONS



PROFIT SHARE DISTRIBUTION



Corporate Governance Rating Score	Weight	Rating
Shareholders	25%	95.41
Public Disclosure and Transparency	25%	93.94
Stakeholders	15%	97.13
Board of Directors	35%	90.31
Total	100%	93.51



DIGITAL TRANSFORMATION

OTOKAR CONSIDERS DIGITAL TRANSFORMATION AN OPPORTUNITY AS IMPORTANT AND CRUCIAL AS ENTERING NEW PRODUCTION SEGMENTS.



Otokar adopts a proactive approach to maintain its constantly evolving structure by planning for future requirements and seizing all kinds of development opportunities, including alternative-fueled and smart vehicles. Otokar follows the requirements of the times closely and leads in this field, seeing digital transformation as an opportunity that is as important and crucial as entering new production segments.

Otokar aims to lead the industries in which it operates in the digital transformation journey, together with its employees who believe in Turkey and themselves and are in the habit of giving life to ideas. For Otokar, 2018 was a year when data analytics came

to the forefront as the analysis of data derived from the implemented and ongoing projects revealed a number of development areas. The seminars and trainings continued throughout the year to raise transformation awareness further.

As part of the ongoing digital transformation activities, Otokar launched six projects in 2018. The Digital Quality and Talent-Based Employee Optimization projects were completed and the first steps were taken in the Signalization, Spare Part Catalogue Development, Digital Operation Page, and Body Control with Camera projects. Otokar also launched the Smart Assistant app for commercial vehicle users.

6 new digital transformation projects

FUTURE

OTOKAR ALREADY PREPARES FOR THE FUTURE WITH DIGITAL TRANSFORMATION PROJECTS THAT WILL DRIVE THE COMPANY AS THE INDUSTRY LEADER.



With products used in more than 60 countries on five continents, Otokar continues to take fast and firm steps in export markets, working toward becoming a global company in 2019. In addition to completing the deliveries of bus orders from Europe and other export markets, Otokar also aims to increase the vehicle park in target markets with vehicles designed specifically for the European market. While further shrinking is predicted in the city bus market in Turkey, a revival is anticipated in the tourism industry. Therefore, Otokar's goal is to continue being among the most preferred brands in the industry with buses that meet customer expectations of the tourism transportation segment, and maintain its leadership in the Turkish bus market.

Otokar's plans for the defense industry include continued operations in export markets. For this purpose, Otokar monitors the armored vehicle procurement requirements closely in target markets, including Asia, Africa, South America, the Gulf Region and Eastern Europe. As well as delivering the armored vehicles ordered the previous year, the company will also continue to manufacture and ship the Rabdan 8x8 armored combat vehicles for the UAE Armed Forces. Through its subsidiaries Otokar Land Systems and Al Jasoor, Otokar will keep responding to the needs of the region for various land systems.

In the defense industry, in addition to product sales in international scale, Otokar will seek and seize further technology transfer and joint production opportunities with

local partners in different export markets. With the advantage of being an experienced manufacturer that designed, developed and successfully qualified the national main battle tank, Otokar will introduce the new Tulpar light tank to global markets.

Aiming to win together with its stakeholders, to increase the satisfaction of its customers and employees further, and to become more competitive and productive, Otokar already prepares for the future with digital transformation projects that will drive the company as the industry leader. The sustainability activities carried out by Otokar to leave a better world for the future will also continue to with the aim of offering benefits for the company's employees, users, stakeholders, and the society at large.



TURNING ITS POWERFUL
PERFORMANCE INTO REVENUE
WITH AN ECO-FRIENDLY AND
ECONOMIC ENGINE, ATLAS
GAINED MORE USERS IN 2018.



CORPORATE GOVERNANCE

LEGAL DISCLOSURES

Reporting Period:

1 January 2018 - 31 December 2018

Company Title:

Otokar Otomotiv ve Savunma Sanayi A.Ş.

Trade Registry / Number:

İstanbul / 83467

Shareholding Structure and Capital Distribution:

Registered Capital Ceiling: TL 100,000,000

Paid-in Capital: TL 24,000,000

Shareholder	Share amount (TL)	Percentage (%)
Koç Holding A.Ş.	10,722,749.81	44.68
Ünver Holding A.Ş.	5,954,943.83	24.81
Free Float	6,587,124.77	27.45
Other	735,181.59	3.06
Total	24,000,000.00	100.00

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

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

Privileged Shares and Voting Rights of Shares:

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

Stock Information:

BIST Ticker Symbol : OTKAR

Reuters Ticker Symbol : OTKAR.IS

Bloomberg Ticker Symbol : OTKAR.TI

IPO Date : 24.04.1995

Headquarters Address:

Aydınevler Mahallesi

Saygı Caddesi No. 58

34854 Maltepe-İstanbul

Factory Address:

Atatürk Caddesi No. 6

54580 Arifiye-Sakarya

Phone:

+90 216 489 29 50

Website:

www.otokar.com

CORPORATE GOVERNANCE

LEGAL DISCLOSURES

Organizational Changes within the Year:

Assistant General Manager Mustafa Bakırcı voluntarily retired and resigned from his position on 31 January 2018.

Uğur Sedef Vehbi, Export Director – Military Vehicles, was appointed Assistant General Manager – Military Vehicles International Marketing and Sales, effective 2 February 2018.

With the organizational changes introduced on 21 June 2018, Uğur Sedef Vehbi, Assistant General Manager – Military Vehicles International Marketing and Sales, was named Assistant General Manager – Military Vehicles Sales and Marketing; and Ali Rıza Alptekin, Assistant General Manager – Production and Supply was named Assistant General Manager – Commercial Vehicles.

The Board of Directors appointed Board Member Levent Çakıroğlu to serve as Vice Chairman in place of former Vice Chairman Halil İbrahim Ünver, who passed away on 6 September 2018, and Selin Ayla Ünver as Board Member.

Murat Ulutaş, Assistant General Manager – Engineering, voluntarily resigned from the company on 18 January 2019.

Legal Actions Taken Against the Company:

There was no material legal action taken against the company.

Legislative Changes that Could Materially Affect the Company's Activities

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

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

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

Private and Public Audits in 2018:

There were no private or public audits completed in 2018.

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

None.

Implementation of the Ordinary General Assembly Resolutions:

The resolutions reached at the Ordinary General Assembly on 15 March 2018 have been implemented.

Extraordinary General Assembly Meetings Held During the Year:

None.

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

None.

CORPORATE GOVERNANCE

2018 REPORT ON AFFILIATED COMPANIES

The report, which explains the company's relations with Majority Shareholders in accordance with article 199 of the Turkish Commercial Code, was approved by the Board of Directors on 20 February 2019. The conclusion of the report is quoted below:

"Pursuant to Article 199 of the Turkish Commercial Code No. 6102, which entered into effect on 1 July 2012, the Board of Directors of Otokar Otomotiv ve Savunma Sanayi A.Ş. is required to prepare a report within the first three months of the calendar year concerning the company's transactions with its majority shareholder and its subsidiaries in the previous year; and to include the conclusions of this report in the annual report. The details of the transactions between Otokar Otomotiv ve Savunma Sanayi A.Ş. and the related parties are included in footnote No. 27 of the financial statements."

The following was expressed in the report, which was prepared by Otokar Otomotiv ve Savunma Sanayi A.Ş.'s Board of Directors on 20 February 2019: "The Board of Directors of Otokar Otomotiv ve Savunma Sanayi A.Ş. reached the conclusion that, in all transactions conducted in 2018 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” promulgated by the Capital Markets Board (CMB), and carries out its operations in line with all applicable laws and regulations, and corporate governance principles. The 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 93.51 (9.35 over 10) by SAHA Kurumsal Yönetim ve Kredi Derecelendirme Hizmetleri A.Ş., as announced in our material disclosure on 21 March 2018.

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.

The Corporate Governance Rating Report can be found on the corporate website at www.otokar.com

Main Headings	Weight	Rating
Shareholders	25%	95.41
Public Disclosure and Transparency	25%	93.94
Stakeholders	15%	97.13
Board of Directors	35%	90.31
Total	100%	93.51

While compliance with the mandatory principles of the Corporate Governance Communiqué II-17.1 applicable in 2018 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 proper fashion, full compliance has not been achieved yet. We are working on the principles not yet implemented and we plan to apply them once the administrative, legal and technical infrastructure for the effective governance of the company has been completed. The following sections detail, for each principle, the comprehensive efforts being made in the company within the framework of corporate governance principles, the principles with which compliance has not yet been achieved and, if any, conflicts of interest that stem from them.

The Corporate Governance related activities in 2018 were executed in compliance with the Capital Markets Law that includes new regulations about CMB’s corporate governance principles and the communiqués promulgated pursuant to this Law. At the 2018 Ordinary General Assembly Meeting, the Board of Directors and its Committees were formed in line with the provisions of the Corporate Governance Communiqué. Ahead of the upcoming general assembly meeting, Independent Board Members were nominated and announced, and the entire process was executed in line with the regulations. The Board Committees have been functioning effectively. The information note that must accompany the disclosure document to be submitted to the General Assembly includes such standard documents as those indicating privileged shares, voting rights and organizational changes, as well as the résumés of Board of Directors membership candidates, the remuneration policy for Board Members and other information that is required to be disclosed, all of which were made available for the investors three weeks prior to the general assembly meeting. Furthermore, the company’s corporate website and annual report were reviewed and revisions required to comply with the principles were made.

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

CORPORATE GOVERNANCE

CORPORATE GOVERNANCE PRINCIPLES COMPLIANCE REPORT

Full compliance with the Corporate Governance Principles below among the non-mandatory principles has not been achieved for the reasons explained, and detailed information can be found in relevant sections. The company has not been subjected to any conflicts of interest due to non-compliance with the non-mandatory principles.

- Regarding principle 1.5.2., minority rights for shareholders holding less than one twentieth of the capital have not been defined in the articles of association, and the rights have been defined within the frame of general provisions in the legislation.
- Regarding principle 4.3.9., while there is no policy in place, female member ratio in the Board of Directors is currently 11 percent.
- Regarding principle 4.4.5., the company has in place processes regarding the conduct of the Board meetings that have been consistently observed for many years and a specifically written internal regulation is not available.
- Regarding principle 4.5.5., committee appointments are decided, taking into consideration Board Members' expertise and experience, and in accordance with relevant regulations, some Board Members serve on more than one committee. However, the said members facilitate communication and increase the opportunities for cooperation between committees handling related subjects.
- Regarding principle 4.6.1., a specific board assessment has not been conducted.
- Regarding principle 4.6.5., remunerations provided to the board member and executive with administrative responsibilities are provided in the notes to the financial statements and disclosed to the public as a total figure.

The Corporate Governance Compliance Report (CGCR) and Corporate Governance Information Note (CGIN) of Otokar Otomotiv ve Savunma Sanayi A.Ş., will be drawn up according to the new reporting formats pursuant to CMB resolution no. 2/49 dated 10.01.2019, publicly disclosed on the Public Disclosure Platform in due time.

SECTION II – SHAREHOLDERS

2.1. Investor Relations Department

At Otokar Otomotiv ve Savunma Sanayi A.Ş., relations with the shareholders are handled by the Investor Relations Department, which work in cooperation with relevant departments. The department is responsible for providing information to the shareholders and prospective investors, assuring the no confidential information or trade secrets are disclosed, 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,
- Responding to questions and requests 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 that contain voting results through the minutes of the Annual General Assembly Meeting,
- 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 two-way information flow 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.

In 2018, the Investor Relations Department held 39 one-to-one meetings, 13 of which were abroad, and 83 teleconferences with analysts from stockbrokerage companies, and local and foreign investors. The department attended 4 investors' conferences and

CORPORATE GOVERNANCE

CORPORATE GOVERNANCE PRINCIPLES COMPLIANCE REPORT

roadshows, including 2 abroad. Furthermore, 1 plant visit was organized in 2018 for corporate investors and analysts. To ensure that investors can keep track of the latest information, the company's website, investor presentations and investor newsletters are regularly updated. Material disclosures that may be important for the investors are published on the corporate website in Turkish and English after they are announced on the Public Disclosure Platform (KAP). Numerous requests for information were submitted to the Investor Relations Department by analysts and investors regarding the company's financial reports and activities, and these were replied in line with publicly available information in a manner to avoid discrepancies.

The Investor Relations Department submits a report to the Corporate Governance Committee at least once a year regarding its activities to be communicated to the Board of Directors. The said report on the activities of 2018 was evaluated by the Corporate Governance Committee and the Board of Directors on 22 February 2019.

In order to fulfill the duties stipulated in article 11 of the Corporate Governance Communiqué II-17.1, the Board of Directors resolved on 27 June 2014 to appoint İrfan Özcan, Financial Affairs Director, Doğan Seçkinler, Finance, Risk Management and Investor Relations Director, and Hatice Gülşah Mutlu, Investor Relations and Corporate Governance Manager, led by Hüseyin Odabaş, Assistant General Manager – Financial Affairs to serve on the Corporate Governance Committee. Doğan Seçkinler, Finance, Risk Management and Investor Relations Director and Hatice Gülşah Mutlu, Investor Relations and Corporate Governance Manager are holders of Capital Market Activities Advanced Level License and Corporate Governance Rating Specialists License.

Investor Relations Department managers are listed below:

Hüseyin Odabaş (Assistant General Manager - Finance)

İrfan Özcan (Financial Affairs Director)

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

Hatice Gülşah Mutlu (Investor Relations and Corporate Governance Manager)

2.2. Exercise of Shareholders' Rights to be Informed

The company does not discriminate among shareholders in terms of accessing and inspecting information, and all information, excluding trade secrets, is shared by the shareholders. The Investor Relations Department 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 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 at the Annual General Assembly Meeting 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. To date, no such demand has been received from the shareholders. Additionally, the company's activities are periodically audited by an Independent Auditor, approved by the General Assembly, and the Internal Audit Department within the organization.

The company takes utmost care to ensure compliance with legislation in satisfying investors' demands. No complaints, or administrative or legal pursuit of exercising shareholders' rights in the company have been received to the best of our knowledge. In this period, no applications or questions were submitted to the department on this matter.

2.3. General Assembly Meetings

In 2018, one Ordinary General Assembly was held on 15 March 2018 with 76% attendance at Divan Istanbul Hotel, Asker Ocağı Cad. No:1 Elmadağ, Şişli – Istanbul. The General Assembly Meeting, aiming to encourage wider participation of 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 stipulated in the company's Articles of Association.

CORPORATE GOVERNANCE

CORPORATE GOVERNANCE PRINCIPLES COMPLIANCE REPORT

The Annual General Assembly Meeting is organized in a manner to enable broad participation and allow 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. In addition to physical attendance, participation in electronic medium was also enabled. Moreover, the opportunity to participate in the Annual General Assembly Meeting was offered to representatives of print and visual media, officers of several brokerage firms, and individuals wishing to attend as observers.

The Board of Directors issues invitations to the Annual General Assembly Meeting in line with the provisions of the Turkish Commercial Code (TCC), 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 with 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 Meeting, any draft amendments to the Articles of Association, and the proxy form are published in the Turkish Trade Registry Gazette at least 21 days prior to the Annual General Assembly Meeting. This announcement information on where the financial statements for the respective period as audited by the independent auditor are available for inspection.

The company publicly announces any required documents related to agenda items prior to the Annual General Assembly Meeting, and adheres to legal processes and legislation in all announcements. Within the scope of the Annual General Assembly Meeting 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, in case of any amendments, are made available for shareholders at the company's Headquarters and on the website three weeks prior to the General Assembly Meeting. Furthermore, detailed explanation is included in the information document about each and every agenda item. Investors are also provided with further information regarding the General Assembly meetings, as set out by the Principles.

Shareholders are informed of the voting procedure to be applied at the General Assembly Meeting through the corporate website and newspaper announcements. At the Annual General Assembly meetings, votes on the agenda items are taken by a show of hands, and open voting method is used.

For shareholders who will be represented by proxy at the Annual General Assembly Meeting, the required schedule for procedures as well as a sample proxy form are made available on the corporate website and through newspaper announcements.

Asking questions and expressing opinions on the issues at the Annual General Assembly Meetings, which are held under the supervision of a representative from the Ministry of Customs and Trade, are the most natural of shareholders. Accordingly, the Chairman presiding over the meeting 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 at the Annual General Assembly Meeting. The shareholders have not proposed any addendum to the agenda of the said meeting. All the questions directed by the shareholders at 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 Assembly Meetings and attendance lists for past years may be obtained from the company's Headquarters. The minutes of Annual General Assembly Meetings held in the last five years are also available on the corporate website in Turkish and English. The minutes are also available at the company's Headquarters for shareholders, and provided upon request.

At the Annual General Assembly Meeting in 2018, shareholders were informed of the donations and aid made in 2017 on a separate agenda item. The limit for donations in 2018 was set at 0.2% of the previous year's total revenues. The company does not have a policy in place for donations and aids. However, maximum annual donation amount allowed is determined by the shareholders at the General Assembly Meeting in accordance with CMB regulations.

CORPORATE GOVERNANCE

CORPORATE GOVERNANCE PRINCIPLES COMPLIANCE REPORT

Some shareholders with management control, members of the Board of Directors, executives with administrative responsibilities, their spouses and blood relatives to the second degree and in laws carry out administrative duties as members of Board of Directors in some other Koç Group companies including the ones that operate in similar field. In 2018, there has been no transaction that may lead to conflict of interest between the said persons and listed company or its affiliates to Article 1.3.6 of the Corporate Governance Communiqué.

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 meetings in accordance with the regulations concerning representation and voting method. The company adheres to the CMB regulations on voting by proxy. The opportunity for equal, easy and proper voting is ensured for all shareholders.

There are no provisions in the 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 one twentieth of the capital, and the minority shareholders are provided with rights according to the general provisions of the regulation.

2.5. Dividend Rights

The 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 the company's Articles of Association.

In terms of profit distribution, the company follows a balanced and consistent policy between the shareholders and the company's interests in accordance with Corporate Governance Principles, and takes into account the long-term strategies, investments and financing policies, profitability and cash position to determine the dividend amount.

In principle, and to the extent allowed by regulations and financial means, minimum 50% of the "distributable profit for the period", which is calculated in accordance with the Capital Market Legislation/Legal Records and other applicable laws and regulations, is distributed in cash and/or bonus shares.

Payment of dividends is generally intended to be made within one month at most, following the General Assembly meeting while the date is determined by 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 provided that 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 provision of the company's Articles of Association.

The company's dividend distributions based on issued capital in recent years are provided in the table below:

Years	Capital (TL)	% of Dividend by Issued Capital	Amount of Distributed Dividend (TL)
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
From 2017 Profit	24.000.000	291.67%	70,000,000

CORPORATE GOVERNANCE

CORPORATE GOVERNANCE PRINCIPLES COMPLIANCE REPORT

2.6. Transfer of Shares

The company's Articles of Association do not include any provisions or practices that restrict free transfer of shares.

Only the records, which are maintained by the Central Securities Depository of Turkey are taken into consideration in relations with the company, and the 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 traded on the stock market.

SECTION III – PUBLIC DISCLOSURE AND TRANSPARENCY

3.1. Corporate Website and its Content

The company's website, where current and historic information can be accessed is www.otokar.com. The website includes comprehensive information that may be requested about the company. The content is also available in English. The website is updated as developments occur, and features an "Investor Relations" section that contains topics related to Corporate Governance Principles. The Investor Relations section features content pertaining to the last five years. The principles regarding the management of the corporate website are set out in the company's Information Policy. The website address is printed in the company's letterhead.

3.2. Annual Report

The annual report, prepared under the supervision of the Board of Directors, covers all information required by Corporate Governance Principles, and is drafted in detail 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 that concern them or informed by means of telecommunication devices. Public announcements are communicated through the media, and employees are informed at various events organized by the company.

Furthermore, the company aims to inform not only its shareholders but all stakeholders by holding General Assembly meetings openly, providing information on the corporate website, annual reports, press statements and other practices within the scope of the company's disclosure policy. Important announcements, changes in management and press releases are published on the intranet, which the employees can access within the company. Moreover, the Corporate Communications Department publishes a magazine titled "Otokar Hattı", which is followed by the employees, dealers and customers. The newsletter titled "Otokar'da Bu Ay" is published within the company to share important news concerning Otokar with employees. Relations with dealers are maintained at the highest level through meetings and visits by general or regional dealers.

Stakeholders may access the Audit Committee through the contact information provided on the corporate website and/or intranet concerning any practices, which they think 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 share comments in accordance with the procedures implemented within the organization. Such practices include the EFQM model, self-assessment meetings 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 aim to increase productivity. The company also holds regular meetings where employees, suppliers and customers can communicate their expectations from the company. In addition, a number of training programs and various surveys, such as the "work life evaluation survey", are carried out as part of the HR policies.

CORPORATE GOVERNANCE

CORPORATE GOVERNANCE PRINCIPLES COMPLIANCE REPORT

From dealer network meetings to factory visits by shareholders, the company strives to reach out to stakeholders and have a greater impact on the community. Furthermore, the company implements a system through which customer requests received by the sales and the dealer network can be monitored, helping to take necessary measures and encouraging feedback.

4.3. Human Resources Policy

The company's human resources policy ensures that the principles of all the systems and processes are set out in written form.

The vision and mission statements of Otokar Human Resources have been defined and published on the corporate website.

Topics such as recruitment policies, career planning, and development and training policies for employees covered by the Personnel Regulations with the goal of ensuring continuous improvement and motivation of the workforce, and encouraging loyalty to the Otokar family. The recruitment and placement policy is based on "the right person for the right job" philosophy, and aims to attract qualified workforce, which is creative, open to innovations and in alignment with company objectives. In all recruitments, Otokar only considers the criterion of matching the job description, and ensures equal opportunity without discrimination.

In addition to the various committees established to manage relations with employees, there are also Human Resources Representatives, representing each division. Activities are carried out in line with the Human Resources policies introduced by the Koç Group, and the rights and working conditions of both office and field employees are secured to ensure that no employee is subjected to discrimination or ill treatment. No complaints were received in this regard during the reporting period.

Employees' job descriptions are defined in writing and shared with the employees. Practices related to employee development and performance reviews are carried out on the electronic platform Koç@insan. This platform is open to all employees, and serves to inform the employees about the company's goals as well as to measure their performance in terms of achieving their targets. The employees can view their progress toward their targets on the system, and the overall performance of the employee is 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 needs and development areas. The ensuing development planning process is also carried out on the Koç@insan electronic platform.

Otokar has a variety of reward systems in place to recognize the work-related achievements of the employees. The criteria set for these reward systems are shared with all employees at the beginning of the relevant reward evaluation process by email. Furthermore, throughout the evaluation process, relevant criteria are also posted on the internal communication screens. At the end of the evaluation process, employees to be rewarded are determined by the evaluation committee composed of the senior management of the company.

All the 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. Ethics Code and Social Responsibility

Otokar adopts it as a mission to display appropriate attitude and behavior in all of its domestic and international activities and relations with business partners, and toward the wider society, customers, suppliers, shareholders and employees, and strives to spread and promote such behavior both in its industry and also across a larger platform. The company announces how it plans to achieve this mission under Otokar Ethics Code on the corporate website.

As part of the social endeavors carried out in the region where the plant is located and also aimed at the general public, Otokar organizes a variety of activities to contribute to and create value for the community based on the corporate social responsibility and social impact criteria. 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, primarily in the form of environmental impact reports, related to its activities.

CORPORATE GOVERNANCE

CORPORATE GOVERNANCE PRINCIPLES COMPLIANCE REPORT

Otokar aims to create long-term value by combining economic, environmental and social factors with corporate governance principles, and the company's work in this field is presented in detail in the Otokar Sustainability Report, available at www.otokar.com.

SECTION V - BOARD OF DIRECTORS

5.1. The Structure and Formation of the Board of Directors

The table below provides an overview of the current Board Members, all non-executive except for 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 18 March 2018 to serve until the next General Assembly Meeting to review the 2018 activities.

Name & Lastname	Title	Independence Status	Assignments in BoD & Committees	Duties Outside Company
Yıldırım Ali KOÇ	Chairman	Not Independent		Koç Holding A.Ş.-Vice Chairman; Board Member in Koç Group Companies
Levent ÇAKIROĞLU	Vice Chairman	Not Independent	Corporate Governance Committee Member	Koç Holding A.Ş. CEO; Board Member in Koç Group Companies
Selin Ayla ÜNVER	Member	Not Independent		Ünver Holding A.Ş.- Chairwoman
Osman Turgay DURAK	Member	Not Independent		Board Memberships
Kudret ÖNEN	Member	Not Independent	Member of the Risk Management Committee	MESS Chairman; TISK Chairman, Board Memberships
Ahmet Serdar GÖRGÜÇ	Member- General Manager	Not Independent		
Ahmet Nezir OLCAY	Member	Independent	Audit Committee Chairman Corporate Governance Committee Chairman	
Ali İhsan KAMANLI	Member	Independent	Audit Committee Member	
Kenan GÜVEN	Member	Independent	Risk Management Committee Chairman	Turkish Heart Foundation - Chairman

The Board of Directors appointed Board Member Levent Çakiroğlu to serve as Vice Chairman in place of former Vice Chairman Halil İbrahim Ünver, who was elected to the Board of Directors by the General Assembly on 15 March 2018 and passed away on 6 September 2018, and Selin Ayla Ünver as Board Member to serve until the next General Assembly Meeting.

The detailed résumés of the Members of the Board of Directors are provided in the annual report.

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

Duties of the Nomination Committee and the Remuneration Committee in the company are carried out by the Corporate Governance Committee.

Three candidates were nominated for independent membership in 2018, and the declarations of independence and résumés of these individuals were evaluated by the Corporate Governance Committee and the Board of Directors on 8 February 2018,

CORPORATE GOVERNANCE

CORPORATE GOVERNANCE PRINCIPLES COMPLIANCE REPORT

determining them to be independent member candidates. All independent board members submitted their declarations of independence to the Corporate Governance Committee, and in the 2018 reporting period, no situation that would contravene their independence occurred.

The company agrees that achieving diversity in the Board of Directors in terms of knowledge, experience and perspectives contributes positively to its operations and enhances the effective functioning of the Board of Directors. While there is no policy in place, female member ratio in the Board of Directors is currently 11 percent.

5.2. Operating Principles of the Board of Directors

Issues or agenda items requiring the resolution of the Board of Directors are addresses periodically or when the need arises. Therefore, the number of Board meetings may vary according to such need. In accordance with the Turkish Commercial Code and the relevant articles of the company's Articles of Association, the Board of Directors convenes physically when the company business calls for it, and when necessary, resolutions can be reached by passing around the resolutions pursuant to article 390, paragraph 4 of the Turkish Commercial Code Article. The Board of Directors drew up 19 resolutions in 2018. Minimum two of the independent members have been made sure to attend the meetings. The Board convenes for meetings when company business so requires. Although there is no dedicated secretariat established to facilitate communication, the Investor Relations and Corporate Governance Department under the Finance, Risk Management and Investor Relations Directorate prepares the meeting agenda, records the resolutions, and monitors the outcome of resolutions.

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 consolidated by the Finance, Risk Management and Investor Relations Directorate and the meeting agenda is drawn up accordingly.

The Finance, Risk Management and Investor Relations Director at Otokar A.Ş. is in charge of setting the agenda of the Otokar A.Ş. 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 the company are covered by an "Executive Responsibility Insurance" policy.

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

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

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

The Committees' operating principles and fields of activity are determined by the Board of Directors, and disclosed to the public.

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.

CORPORATE GOVERNANCE

CORPORATE GOVERNANCE PRINCIPLES COMPLIANCE REPORT

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

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

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

Audit Committee

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

The Board of Directors resolved on 12 April 2018 that the Audit Committee would be composed of 2 independent members, with Ahmet Nezih Olcay appointed as Chairman, and Ali İhsan Kamanlı as Member of the Committee.

In 2018, the Audit Committee submitted to the Board of Directors a written report of its views on the choice of independent auditor, its assessments of annual and interim financial statements to be disclosed to the public in terms of their truth, accuracy, and compliance with the accounting principles adopted by the company as well as the decisions made during Committee meetings held within the year. The Audit Committee convened 5 times in 2018.

Corporate Governance Committee

The Corporate Governance Committee was established following the Board of Directors resolution on 25 May 2012 to monitor the company's compliance with the Corporate Governance Principles, to examine the reasons for non-compliance with the Principles, which are not yet implemented, and propose improvement actions, to evaluate corporate governance practices and the Corporate Governance Compliance Report, and to oversee the work of the investor relations department. The Committee's operating principles have been announced on the corporate website. The Board of Directors resolved on 12 April 2018 that the Corporate Governance Committee be composed of three members and that Ahmet Nezih Olcay, who is an Independent Member, be appointed as the Chairman, and Levent Çakıroğlu ve Hüseyin Odabaş as Members of the Committee, and to also serve as the Nomination Committee and the Remuneration Committee in accordance with the Communiqué.

The Corporate Governance Committee notified the Board of Directors in writing the assessment of the Corporate Governance Compliance Report as part of the annual report, their opinions on the assessment of the Investor Relations Department's Report as well as the decisions reached at its meetings throughout the year. The Corporate Governance Committee convened 8 times in 2018.

Risk Management Committee

The Board of Directors resolved on 11 July 2012 to establish the Risk Management Committee, which would work on early detection of risks that could pose a threat to the company's presence, development and continuity, and on applying necessary measures to mitigate these risks in order to ensure compliance with article 378 of Law 6102 of the Turkish Commercial Code, which entered force in July 2012. The Board of Directors resolved on 12 April 2018 that the Committee would be composed of two members, with Kenan Güven, who is an Independent Member, as the Chairman, and Kudret Önen as a Member of the Committee. The committee convenes at least six times a year.

In 2018, 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 reached at its meetings throughout the year. The Risk Management Committee convened 7 times in 2018.

CORPORATE GOVERNANCE

CORPORATE GOVERNANCE PRINCIPLES COMPLIANCE REPORT

5.4. Risk Management and the Internal Control Mechanism

A risk management and internal control mechanism is in place to address the company's financial and administrative activities. The Finance, Risk Management and Investor Relations Directorate and Internal Audit department are in charge of ensuring that the company operates effectively and in accordance with capital markets legislation and regulations.

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

The company's financial statements are reviewed by the Audit Committee formed by the member of the Board of Directors. The main risks that the company is exposed to are monitored 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 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 sets 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 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 3 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 the 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 2017 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 18 March 2019 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 the 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	Term Start	Term End
Yıldırım Ali KOÇ	Chairman	15/03/18	18/03/19
Levent ÇAKIROĞLU	Vice Chairman	15/03/18	18/03/19
Selin Ayla ÜNVER	Member	22/10/18	18/03/19
Osman Turgay DURAK	Member	15/03/18	18/03/19
Kudret ÖNEN	Member	15/03/18	18/03/19
Ahmet Serdar GÖRGÜÇ	Member - General Manager	15/03/18	18/03/19
Ahmet Nezih OLCAY	Independent Member	15/03/18	18/03/19
Ali İhsan KAMANLI	Independent Member	15/03/18	18/03/19
Kenan GÜVEN	Independent Member	15/03/18	18/03/19
Board Member Levent Çakiroğlu was appointed Vice Chairman to replace Halil İbrahim Ünver, who was elected to the Board of Directors by the General Assembly on 15 March 2018 and passed away on 6 September 2018, and Selin Ayla Ünver was elected as Board Member.			
Audit Committee	Title	Term Start	Term End
Ahmet Nezih OLCAY	Chairman	15/03/18	18/03/19
Ali İhsan KAMANLI	Member	15/03/18	18/03/19
Corporate Governance Committee	Title	Term Start	Term End
Ahmet Nezih OLCAY	Chairman	15/03/18	18/03/19
Levent ÇAKIROĞLU	Member	15/03/18	18/03/19
Hüseyin ODABAŞ	Member	15/03/18	18/03/19
Risk Management Committee	Title	Term Start	Term End
Kenan GÜVEN	Chairman	15/03/18	18/03/19
Kudret ÖNEN	Member	15/03/18	18/03/19

- 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 2018 have been included in Note 27 of the financial statements for the 2018 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 Board Resolution no. 2019/07, the Board of Directors has been provided information on the activities of the Board Committees in 2018.
- In 2018, the Audit Committee convened 5 times, the Corporate Governance Committee 8, and the Risk Management Committee 7 times, respectively. The meetings were attended by all committee members.
- The résumés of the Board Members are provided on pages 28/29.

CORPORATE GOVERNANCE

SENIOR MANAGEMENT



Ahmet Serdar Görgüç
General Manager

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



Hüseyin Odabaş
Assistant General Manager - Finance

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



Ali Rıza Alptekin
Assistant General Manager - Commercial Vehicles

Ali Rıza Alptekin completed his undergraduate studies in the Mechanical Engineering Department at Boğaziçi University in 1989, and graduate studies in the Mechanical Engineering Department at Clemson University (USA) in 1991. Mr. Alptekin started his professional career in 1987 as Product Development Engineer at Ford Otosan, a Koç Group company, where he served in this position until 1989. He then worked as a Quality Manager at Istanbul Piston and Pim Sanayi (1991-1993), Production Management Manager at Honda Turkey (1993-2000), and Purchasing Director at Honda of UK Manufacturing (2000-2006). He is the Assistant General Manager-Commercial Vehicles at Otokar Otomotiv ve Savunma Sanayi A.Ş. since 2018 where he served as Assistant General Manager-Production and Procurement between 2006-2018.



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

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



Hasan Basri Akgül
Assistant General Manager - Assistant General Manager Domestic Sales & Marketing

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

Murat Ulutaş, who served as Assistant General Manager – Engineering at Otokar since 1 January 2006, voluntarily resigned from the company on 18 January 2019.

CORPORATE GOVERNANCE

RISK MANAGEMENT AND THE RISK MANAGEMENT COMMITTEE'S ACTIVITIES

a. Risk Management

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

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

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

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

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

Financial Risks

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

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

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

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

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

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

Strategic Risks

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

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

CORPORATE GOVERNANCE

RISK MANAGEMENT AND THE RISK MANAGEMENT COMMITTEE'S ACTIVITIES

Operational Risks

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

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

Legal Risks

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

b. Risk Management Committee's Activities

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

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

The Committee, which convened seven times in 2018, evaluates the company's principles for the Risk Management System and Risk Reporting, examines Risk Reports prepared periodically and expresses views on measures that are deemed necessary to address areas where there is non-compliance with the limits stipulated in the Risk Management System. Reporting activities and the Committee's assessments are recorded as minutes of the meeting, and duly presented to the Board of Directors.

CORPORATE GOVERNANCE

INTERNAL CONTROL SYSTEM AND INTERNAL AUDITS

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

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

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

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

Otokar Otomotiv ve Savunma Sanayi A.Ş. did not undergo any private or public inspections that were completed in 2018.

CORPORATE GOVERNANCE

REVIEW OF THE BOARD COMMITTEES AND THEIR EFFECTIVENESS

All of the Board Committees have fulfilled the duties and obligations mandated by the Corporate Governance Principles and their own regulations, and convened according to the annual meeting schedules in 2018. Information on the Committees' activities and the outcomes of the meetings held throughout the year have been reported to the Board of Directors.

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

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

Detailed information on the structure and activities of the Committees are provided in the "Corporate Governance Principles Compliance Report" section of this report (see pages 67).

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: 06.02.2019

RESOLUTION NUMBER: 2019/01

Regarding the consolidated financial statements pertaining to the period from 01.01.2018 to 31.12.2018, which were prepared by the company and audited by PwC Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş. in compliance with Turkish Accounting Standards/Turkish Financial Reporting Standards ("TAS/ TFRS) and formats determined by Capital Markets Board (CMB) in accordance with the CMB's "Communiqué on Principles of Financial Reporting in Capital Markets" ("Communiqué") II.14.1, and include the consolidated statement of financial position, comprehensive income statement, statement of cash flow and statement of changes as well as notes to yearend financial statements ("Financial Statements" as a whole), we hereby declare our responsibility for the following:

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

Sincerely,



Ahmet Nezir OLCA
Chairman of Audit Committee



Ali İhsan KAMANLI
Member of Audit Committee



Ahmet Serdar GÖRGÜÇ
General Manager

CORPORATE GOVERNANCE

RESPONSIBILITY STATEMENT FOR ANNUAL REPORT

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

BOARD OF DIRECTORS' RESOLUTION ON APPROVAL OF THE ANNUAL REPORT

RESOLUTION DATE: 22.02.2019

RESOLUTION NUMBER: 2019/08

The 2018 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, and which includes the Corporate Governance Compliance Report that conforms with the formats determined in 2014 and allowed by CMB's Principle Resolution on 10 January 2019, is hereby presented.

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

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

Sincerely,



Ahmet Nezir OLCA
Board Member
Chairman of Audit Committee



Ali İhsan KAMANLI
Board Member
Member of Audit Committee



Ahmet Serdar GÖRGÜÇ
Board Member
General Manager

REPORTS AND FINANCIAL STATEMENTS

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OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

REPORT OF THE COMMITTEE RESPONSIBLE FOR THE AUDIT

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

We have convened to examine, and express our opinion concerning the consolidated financial tables for the period from 1 January 2018 to 31 December 2018, prepared by the governing body of Otokar Otomotiv ve Savunma Sanayi A.Ş. in accordance with the formats defined by the Turkish Accounting Standards/Turkish Financial Reporting Standards ("TAS/ TFRS") pursuant to the provisions of the Capital Markets Board ("CMB") Communiqué II-14.1 on the Principles of Financial Reporting in Capital Markets ("Communiqué") and the independent auditor's report prepared by PwC Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik Anonim Şirketi for the said financial statements.

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

Within the scope of information submitted to us and as a result of our evaluations, we have been convinced that the consolidated financial statements for the 1 January - 31 December 2018 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,

06/02/2019

COMMITTEE RESPONSIBLE FOR THE AUDIT

Ahmet Nezih OLCAY
Chairman of the Committee



Ali İhsan KAMANLI
Member of the Committee



OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

CONVENIENCE TRANSLATION INTO ENGLISH OF CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY - 31 DECEMBER 2018 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 2018 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 2018, and its financial performance and its cash flows for the year then ended in accordance with Turkish Financial Reporting Standards ("TFRS").

2. Basis for Opinion

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

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

CONVENIENCE TRANSLATION INTO ENGLISH OF CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY - 31 DECEMBER 2018 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 TRY43.7 million as of 31 December 2018.</p> <p>The Group calculates warranty provisions for possible future claims, maintenance and repair expenses in the following years for products sold in the current year. Warranty provisions are calculated based on the remaining warranty period per vehicle and the warranty expense per vehicle estimated using the previous years' data.</p> <p>We focused on this matter during our audit for the reasons below:</p> <p>a) the amount of the warranty provision balance is material in the consolidated financial statements.</p> <p>b) the warranty provision is calculated per vehicle, depending on certain assumptions such as the probable warranty claims per vehicle and foreign exchange rates. Changes in such assumptions may affect the consolidated financial statements.</p>	<p>We performed the following audit procedures to test the reasonableness of the warranty provision:</p> <ul style="list-style-type: none"> - We tested the controls related to reviewing and approving the Group's assumptions in establishing the accounting estimates used. - We tested the remaining warranty period per vehicle as follows: <ul style="list-style-type: none"> - Group management provided us with the warranty expense provision calculation. We checked the number of vehicles sold subject to the warranty calculation and tested the invoices of the vehicles sold in the current period by using the sampling method. - We tested the mathematical accuracy of the remaining warranty period calculated for each vehicle sold by recalculation. - We tested the warranty provision per vehicle estimated using the current and previous years' actual warranty expenses as stated below: <ul style="list-style-type: none"> - We compared the consistency of the actual warranty expenses with the Group management's past estimations and assumptions. - The Group calculates the current year's warranty expense provision per vehicle in hard currency based on the actual warranty expenses realized in the current and previous periods taking into consideration the changes in the foreign exchange rate. We assessed the reasonableness of the warranty expense provision taking into account the actual warranty expenses and fluctuations in the foreign exchange rate, and compared this amount with the warranty expense provision calculated by the Group. - We tested the Group's actual warranty provision expenses for the current period using by sampling method.

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

CONVENIENCE TRANSLATION INTO ENGLISH OF CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY - 31 DECEMBER 2018 AND INDEPENDENT AUDITOR'S REPORT

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

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

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

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

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

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

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

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

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

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

CONVENIENCE TRANSLATION INTO ENGLISH OF CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY - 31 DECEMBER 2018 AND INDEPENDENT AUDITOR'S REPORT

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

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

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

B. Other Responsibilities Arising From Regulatory Requirements

1. No matter has come to our attention that is significant according to subparagraph 4 of Article 402 of Turkish Commercial Code ("TCC") No. 6102 and that causes us to believe that the Company's bookkeeping activities concerning the period from 1 January to 31 December 2018 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 6 February 2019.

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



Beste Ortaç, SMMM
Partner

İstanbul, 6 February 2019

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ**CONSOLIDATED BALANCE SHEETS AS OF 31 DECEMBER 2018 AND 2017**

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

		(Audited)	(Audited)
	Notes	31 December 2018	31 December 2017
Assets			
Current assets			
Cash and cash equivalents	4	173,017	228,958
Trade receivables	8	870,457	445,329
<i>Due from related parties</i>	<i>27</i>	<i>399,044</i>	<i>29,656</i>
<i>Due from other parties</i>	<i>8</i>	<i>471,413</i>	<i>415,673</i>
Other receivables	9	304	68
Due from customers on contract works	11	-	312,030
Inventories	10	690,013	413,056
Derivative financial instruments	7	297	1,325
Prepaid expenses	17	7,470	190,153
Other current assets	17	60,923	40,632
Total current assets		1,802,481	1,631,551
Non-current assets			
Trade receivables	8	7,930	10,235
Other receivables	9	707	281
Financial investments		-	41
Investments accounted for using the equity method	5	13,305	-
Property, plant and equipment	12	107,603	101,009
Intangible assets	13	280,656	219,864
Deferred income tax asset	25	90,064	46,606
Total non-current assets		500,265	378,036
Total assets		2,302,746	2,009,587

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 2018 AND 2017

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

	Notes	(Audited) 31 December 2018	(Audited) 31 December 2017
Liabilities			
Current liabilities			
Short-term borrowings	6	-	429,248
Short-term portion of long-term borrowings	6	207,281	84,410
Trade payables	8	269,459	62,117
<i>Due to related parties</i>	27	25,346	14,094
<i>Due to other parties</i>	8	244,113	48,023
Employee benefit obligations	17	30,344	24,294
Other payables, third parties	9	43,292	42,549
Deferred income	17	196,791	21,084
Government grants	14	1,283	1,940
Short-term provisions	15	104,281	403,935
<i>Provisions for employee benefits</i>	16	10,443	9,286
<i>Other provisions</i>	15	93,838	394,649
Other current liabilities	17	15,409	2,742
Toplam kısa vadeli yükümlülükler		868,140	1,072,319
Non-current liabilities			
Long-term borrowings	6	500,266	190,000
Government grants	14	1,124	1,441
Long-term provisions	16	38,235	31,693
<i>Provisions for employee benefits</i>	16	38,235	31,693
Deferred income	17	505,395	430,580
Total non-current liabilities		1,045,020	653,714
Total liabilities		1,913,160	1,726,033
Equity			
Paid-in share capital	18	24,000	24,000
Inflation adjustment on share capital	18	52,743	52,743
Restricted reserves	18	66,678	59,798
Accumulated other comprehensive income and expense that will not be reclassified to statement of profit or loss (-)	18	(3,586)	(4,880)
<i>Defined benefit plans remeasurement losses (-)</i>	18	(3,586)	(4,880)
Accumulated other comprehensive income and expense that may be reclassified to statement of profit or loss		12,997	2,396
<i>Currency translation differences</i>		12,997	2,396
Retained earnings	18	72,418	50,074
Net profit for the period	18	164,336	99,423
Total equity		389,586	283,554
Total liabilities and equity		2,302,746	2,009,587

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

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OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ**CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE PERIODS****1 JANUARY - 31 DECEMBER 2018 AND 2017**

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

	Notes	(Audited) 1 January – 31 December 2018	(Audited) 1 January – 31 December 2017
Net Sales	19	1,678,661	1,785,272
Cost of sales (-)	19	(1,085,704)	(1,313,646)
GROSS PROFIT		592,957	471,626
Marketing expenses (-)	20	(285,053)	(234,662)
General administrative expenses (-)	20	(91,886)	(69,524)
Research and development expenses (-)	20	(50,481)	(43,644)
Other operating income	22	344,701	448,664
Other operating expenses (-)	22	(278,826)	(346,746)
OPERATING PROFIT		231,412	225,714
Income from investing activities		-	1,250
Expenses from investing activities (-)		(2,454)	-
Share of profit/loss of investments accounted for using the equity method, net	5	12,182	-
OPERATING INCOME BEFORE FINANCIAL EXPENSES		241,140	226,964
Financial income	23	45,891	14,548
Financial expense (-)	24	(165,886)	(150,806)
PROFIT BEFORE TAX		121,145	90,706
Tax income/(expense) from continued operations			
Current tax expense (-)	25	(632)	(66)
Deferred tax income	25	43,823	8,783
PROFIT FOR THE PERIOD		164,336	99,423
Items that will not be reclassified to statement of profit or loss			
Remeasurement (losses)/gains		1,659	136
Deferred tax income/(expense)		(365)	(30)
Items that may be reclassified to statement of profit or loss			
Currency translation differences of investments accounted for using the equity method		1,123	-
Currency translation differences		9,478	1,067
Other comprehensive income		11,895	1,173
TOTAL COMPREHENSIVE INCOME		176,231	100,596
Earnings per share (Kr)	26	0.685	0.414

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

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE PERIODS 1 JANUARY - 31 DECEMBER 2018 AND 2017

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

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		Paid in share capital	Inflation adjustments	Restricted reserves	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	Retained earnings	Net income for the period	Total equity
					Remeasurement losses on defined benefit plans	Currency translation differences			
Previous period	Opening balances	24,000	52,743	54,015	(4,986)	1,329	46,132	69,725	242,958
	Transfers	-	-	5,783	-	-	63,942	(69,725)	-
	Dividends paid	-	-	-	-	-	(60,000)	-	(60,000)
	Total comprehensive income	-	-	-	106	1,067	-	99,423	100,596
	Closing balances	24,000	52,743	59,798	(4,880)	2,396	50,074	99,423	283,554
Current period	Opening balances	24,000	52,743	59,798	(4,880)	2,396	50,074	99,423	283,554
	Impact of the subsidiary that is currently included in consolidation (Note 2)	-	-	-	-	-	(199)	-	(199)
	Transfers	-	-	6,880	-	-	92,543	(99,423)	-
	Dividends paid	-	-	-	-	-	(70,000)	-	(70,000)
	Total comprehensive income	-	-	-	1,294	10,601	-	164,336	176,231
	Closing balances	24,000	52,743	66,678	(3,586)	12,997	72,418	164,336	389,586

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

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE PERIODS 1 JANUARY - 31 DECEMBER 2018 AND 2017

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

	Notes	(Audited) 1 January – 31 December 2018	(Audited) 1 January – 31 December 2017
CASH FLOWS FROM OPERATING ACTIVITIES		280,354	204,043
Net profit for the period		164,336	99,423
Adjustments to reconcile income before taxes to net cash flows from operating activities:		269,107	270,516
Depreciation and amortization	12, 13	60,772	62,108
Adjustments in relation to impairment:		14,805	5,078
- Provision for doubtful receivables	8	9,485	5,084
- Provision for inventories	10	5,320	(6)
Adjustments in relation to provision:		95,600	64,404
- Provision for employee benefits	16, 21	16,417	8,942
- Warranty provision expenses	15, 21	46,276	55,462
- Adjustments for other provisions		32,907	-
Adjustments in relation to interest income and expenses:		116,632	94,732
- Interest income on time deposits	23	(3,977)	(1,050)
- Interest expense on borrowings	24	120,609	95,782
Adjustments in relation to unrealised foreign exchange gains and losses		17,283	38,861
Adjustments in relation to fair value gains and losses		(26,099)	6,583
- Fair value losses/(gains) on financial derivative instruments, net	22	(26,099)	6,583
Adjustments for undistributed profits of investments accounted for using equity method		(12,182)	-
Adjustments for undistributed profits of joint ventures	5	(12,182)	-
Adjustments in relation to gains or losses on sales of property, plant and equipment		2,454	(1,250)
- Gain on sale of property, plant and equipments		2,454	(1,250)
Other adjustments of profit (loss) reconciliation		(158)	-
Changes in net working capital		(116,166)	(108,993)
Change in trade receivables		(433,074)	(62,911)
Change in due from customers on contract works		312,030	(66,200)
Change in inventories		(282,277)	80,820
Change in trade payables		207,342	(339,028)
Other changes		79,813	278,326
- Changes in other operating assets		162,362	52,119
- Changes in other operating liabilities		(82,549)	226,207
Cash flows from operations		317,277	260,946
Payments in relation to employee benefits	16	(7,059)	(5,201)
Payments in relation to other provisions	15	(55,563)	(43,782)
Deductions/(payments) in relation to income tax		(632)	(66)
Other cash collections/(payments)		26,331	(7,854)
CASH FLOWS FROM INVESTING ACTIVITIES		(130,485)	(94,697)
Cash outflows from purchases due to obtaining control of subsidiaries		(1,351)	4,532
Proceeds from sale of property, plant and equipment and intangible assets		(1,351)	4,532
- Proceeds from sale of property, plant and equipment		(129,134)	(99,229)
Cash outflows due to purchase of property, plant and equipment and intangible assets	12	(19,140)	(13,273)
- Purchase of property, plant and equipment	13	(109,994)	(85,956)
CASH FLOWS FROM FINANCING ACTIVITIES		(200,026)	79,947
Cash inflow from to borrowings		1,363,530	1,119,456
- Proceeds from bank borrowings	6	1,363,530	1,119,456
Cash outflow due to repayment of borrowings		(1,394,191)	(893,393)
- Repayments of borrowings	6	(1,394,191)	(893,393)
Dividends paid		(70,000)	(60,000)
Interest paid		(103,342)	(87,166)
Interest received		3,977	1,050
NET DECREASE IN CASH AND CASH EQUIVALENTS BEFORE THE EFFECT OF CURRENCY TRANSLATION DIFFERENCES		(50,157)	189,293
Currency translation difference on cash and cash equivalents		(5,784)	1,067
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		(55,941)	190,360
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	4	228,958	38,598
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	4	173,017	228,958

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 2018 AND 2017

(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. Dumlupınar Cad. No: 58 A Bl. 34854 Küçükyalı / İstanbul

Plant:

Atatürk Cad. No: 6 54580 Arifiye / Sakarya

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

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

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

Otokar Land Systems had not been subjected to consolidation scope in the prior reporting periods due to immaterial operating activities and it had been accounted under "Financial Investments". Starting from current year, its operating activities became material and of Otokar Land Systems has been included in the consolidation scope as of 1 October 2018.

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

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

	2018		2017	
	Period end	Average	Period end	Average
Total personnel number	1,966	2,044	2,147	2,205

The consolidated financial statements for the year ended 31 December 2018 were authorized for issue and signed by the Board of Directors of Otokar on 6 February 2019. The accompanying consolidated financial statements may be amended by the General Assembly.

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ**NOTES TO CONSOLIDATED YEARS ENDED FINANCIAL STATEMENTS AT 31 DECEMBER 2018 AND 2017**

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

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

Otokar is registered to the Capital Market Board ("CMB") and its shares are listed on the Borsa İstanbul A.Ş. ("BIST") since 1995. As of 31 December 2018, 27.45% of the shares are quoted on the BIST.

As of 31 December 2018, 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 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/IFRS") 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, prorated and useful life depreciation adjustment of fixed assets, accounting of provisions, construction accounting for tank project and discount of receivables and payables.

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

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO CONSOLIDATED YEARS ENDED FINANCIAL STATEMENTS AT 31 DECEMBER 2018 AND 2017

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

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

2.1 Basis of presentation of consolidated financial statements (Continued)

Functional and presentation currency

Items included in the consolidated financial statements of the Subsidiaries and Joint Ventures of the Group are measured using the currency of the primary economic environment in the entity operates ("the functional currency"). The consolidated financial statements are presented in TL, which is the Company's functional and presentation currency.

In accordance with the CMB's resolution dated 17 March 2005 and numbered 11/367, the financial statements were restated in accordance with International Accounting Standards (IAS) 29 (Financial Reporting in Hyperinflationary Economies) for the last time as of 31 December 2004, since the objective conditions which require the application of restatement of financial statements have not been realized and that based on the existing data CMB has foreseen that the indications whether such conditions are going to be realized in the future is no longer probable. Therefore, non-monetary assets, liabilities and equity items including the share capital as of 31 December 2018 and 31 December 2017 have been restated by applying the relevant conversion factors through carrying additions after 31 December 2004 at their nominal values.

Financial statements of foreign subsidiaries, joint ventures and associates

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

2.2 Accounting errors and changes in accounting estimates

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

If changes in accounting estimates are related to only one period, they are recognised in the period when changes are applied; if changes in estimates are related to future periods, they are recognized both in the period where the change is applied and future periods prospectively. The accounting policies except the situation stated below used in the preparation of these consolidated financial statements for the year ended 31 December 2018 are consistent with those used in the preparation of financial statements for the year ended 31 December 2017.

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.

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO CONSOLIDATED YEARS ENDED FINANCIAL STATEMENTS AT 31 DECEMBER 2018 AND 2017

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

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

2.3 Changes in accounting policies (Continued)

2.3.1 TFRS 15 "Revenue From Contracts with Customers"

Revenue recognition

The Group adopted TFRS 15, "Revenue From Contracts with Customers" from 1 January 2018 which proposes a five step model framework mentioned below for recognizing the revenue.

- Identify the contact with customers
- Identify separate performance obligations in the contract
- Determine the transaction price in contract
- Allocate the transaction price to the performance obligations in the contract
- Recognise revenue

The Group assess the goods or services promised in a contract with a customer and identify as a performance obligation each promise to transfer to the customer.

For each performance obligation identified, the entity determine at contract inception whether it satisfies the performance obligation over time or satisfies the performance obligation at a point in time. If the Group transfers control of a good or service over time and therefore satisfies a performance obligation and recognises revenue over time.

The Group recognise revenue when the entity satisfies a performance obligation by transferring a promised good or service to the customer. An asset is transferred when the customer obtains control of that asset or service.

The Group considers the following in the assessment of transfer of control of goods sold and services,

- a) The entity has a right to payment for the goods or service,
- b) The customer has legal title to the goods or service,
- c) The entity has transferred physical possession of the asset,
- d) The customer has the significant risks and rewards related to the ownership of the goods or services,
- e) The customer has accepted the goods or services.

The Group does not adjust the promised amount of consideration for the effects of a significant financing component since the Group expects, at contract inception, that the period between when the entity transfers a promised good or service to a customer and when the customer pays for that good or service will be one year or less. If the financing component is significant in revenue, future collections are discounted by the interest rate in financing component. The difference is recognised as income from operating activities in current period.

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO CONSOLIDATED YEARS ENDED FINANCIAL STATEMENTS AT 31 DECEMBER 2018 AND 2017

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

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

2.3 Changes in accounting policies (Continued)

First time adoption of TFRS 15 "Revenue From Contracts with Customers"

The Group assessed the cumulative effect of initial application of TFRS 15 "Revenue From Contracts with Customers" which replaced "TAS 18 Revenue" retrospectively ("cumulative effect approach") as of the date of first time adoption which is 1 January 2018 and concluded that the standard does not have a significant retrospective effect.

2.3.2 TFRS 9 "Financial Instruments" Standard

Classification and measurement

The Group classifies the financial assets as three groups such as subsequently measured at amortised cost, fair value through other comprehensive income and fair value through profit or loss. The classification is made on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset.

"Financial assets measured at amortised cost", are the financial assets held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, not have an active market and non derivative financial assets. "Cash and cash equivalents", "trade receivables" are classified as financial assets measured at amortised cost. They are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method. Gains and losses recognised as a result of the fair value adjustments of financial assets amortised at cost and non derivative financial assets are included in the income statement.

"Financial assets measured at fair value through other comprehensive income" are consist of assets except for the assets measured at amortised cost and at fair value through other comprehensive income Any gain or loss arising from fair value is recognised in income statement.

The changes in the classification of financial assets and liabilities in accordance with TFRS 9 is explained below. Those reclassification differences do not have any impact of the measurement of financial instruments asset for financial assets.

Financial assets	According to TAS 39 previous classification	According to TFRS 9 new classification
Cash and cash equivalents	Loans and receivables	Amortised cost
Trade receivables	Loans and receivables	Amortised cost
Derivative instruments	Fair value through profit or loss	Fair value through profit or loss

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ**NOTES TO CONSOLIDATED YEARS ENDED FINANCIAL STATEMENTS AT 31 DECEMBER 2018 AND 2017**

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

NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (Continued)**2.3 Changes in accounting policies (Continued)**

Financial liabilities	According to TAS 39 previous classification	According to TFRS 9 new classification
Derivative instruments	Fair value through profit or loss	Fair value through profit or loss
Borrowings	Amortised cost	Amortised cost
Trade payables	Amortised cost	Amortised cost

Impairment

The recognition of credit losses defined in TAS 39 "Financial Instruments: Recognition and Measurement" which was effective before 1 January 2018 is replaced by recognition of expected credit losses. The objective of the impairment requirements is to recognise lifetime expected credit losses for all financial instruments for which there have been significant increases in credit risk since initial recognition whether assessed on an individual or collective basis considering all reasonable and supportable information, including that which is forward-looking.

Trade receivables

The Group has chosen "practical expedient" explained in TFRS 9 for the calculation of impairment of trade receivables (with maturities less than one year) that do not contain a significant financing component and accounted at amortised cost. Accordingly, the Group measured the loss allowance for trade receivables at an amount equal to lifetime expected credit losses in the previous reporting period, but determines at the current reporting date that is no longer met, the entity shall measure the loss allowance at an amount equal to 12-month expected credit losses at the current reporting date.

The Group uses a provision matrix in the calculation of expected credit losses. Provision rate is calculated based on the overdue days of trade receivables and the rates are revised each reporting period if necessary. The change in expected credit losses is recognised in operational expense/income in income statement.

First time adoption of TFRS 9 "Financial assets"

The Group assessed the cumulative effect of initial application of TFRS 9 "Financial Instruments" which replaced "TAS 39 Financial Instruments: Recognition and Measurement" retrospectively as of the date of first time adoption which is 1 January 2018 and concluded that the standard does not have a significant retrospective effect.

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)

2.3 Changes in accounting policies (Continued)

2.3.3 New and revised standards and comments:

a. Standards, amendments and interpretations applicable as at 31 December 2018

- **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.
- **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 TFRS 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 TAS 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.

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

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

2.3 Changes in accounting policies (Continued)

- **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.

- **IFRIC 22, 'Foreign currency transactions and advance consideration'**; effective from annual periods beginning on or after 1 January 2018. This IFRIC 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.

b. Standards, amendments and interpretations that are issued but not effective as at 31 December 2018:

- **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.

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

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

2.3 Changes in accounting policies (Continued))

- **IFRS 16, 'Leases';** effective from annual periods beginning on or after 1 January 2019, with earlier application permitted if IFRS 15 'Revenue from Contracts with Customers' is also applied. This standard replaces the current guidance in 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). IFRS 16 now requires lessees to recognise a lease liability reflecting future lease payments and a 'right of use asset' for virtually all lease contracts. The IASB has included an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees. For lessors, the accounting stays almost the same. However, as the IASB has updated the guidance on the definition of a lease (as well as the guidance on the combination and separation of contracts), lessors will also be affected by the new standard. At the very least, the new accounting model for lessees is expected to impact negotiations between lessors and lessees. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

- **IFRIC 23, 'Uncertainty over income tax treatments';** effective from annual periods beginning on or after 1 January 2019. This IFRIC clarifies how the recognition and measurement requirements of TAS 12 'Income taxes', are applied where there is uncertainty over income tax treatments. The IFRS IC had clarified previously that TAS 12, not TAS 37 'Provisions, contingent liabilities and contingent assets', applies to accounting for uncertain income tax treatments. IFRIC 23 explains how to recognise and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment.

An uncertain tax treatment is any tax treatment applied by an entity where there is uncertainty over whether that treatment will be accepted by the tax authority. For example, a decision to claim a deduction for a specific expense or not to include a specific item of income in a tax return is an uncertain tax treatment if its acceptability is uncertain under tax law. IFRIC 23 applies to all aspects of income tax accounting where there is an uncertainty regarding the treatment of an item, including taxable profit or loss, the tax bases of assets and liabilities, tax losses and credits and tax rates.

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

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

2.3 Changes in accounting policies (Continued)

Annual improvements 2015-2017; effective from annual periods beginning on or after 1 January 2019. These amendments include minor changes to:

- TFRS 3, 'Business combinations', – a company remeasures its previously held interest in a joint operation when it obtains control of the business.
- TFRS 11, 'Joint arrangements', – a company does not remeasure its previously held interest in a joint operation when it obtains joint control of the business.
- TAS 12, 'Income taxes' – a company accounts for all income tax consequences of dividend payments in the same way.
- TAS 23, 'Borrowing costs' – a company treats as part of general borrowings any borrowing originally made to develop an asset when the asset is ready for its intended use or sale.

Amendments to TAS 19, 'Employee benefits' on plan amendment, curtailment or settlement; effective from annual periods beginning on or after 1 January 2019. These amendments require an entity to:

- use updated assumptions to determine current service cost and net interest for the remainder of the period after a plan amendment, curtailment or settlement; and
- recognise in profit or loss as part of past service cost, or a gain or loss on settlement, any reduction in a surplus, even if that surplus was not previously recognised because of the impact of the asset ceiling.

Amendments to TAS 1 and TAS 8 on the definition of material; effective from Annual periods beginning on or after 1 January 2020. These amendments to TAS 1, 'Presentation of financial statements', and TAS 8, 'Accounting policies, changes in accounting estimates and errors', and consequential amendments to other TFRSs:

- i) use a consistent definition of materiality throughout TFRSs and the Conceptual Framework for Financial Reporting;
- ii) clarify the explanation of the definition of material; and
- iii) incorporate some of the guidance in TAS 1 about immaterial information.

Amendments to TFRS 3 - definition of a business; effective from Annual periods beginning on or after 1 January 2020. This amendment revises the definition of a business. According to feedback received by the IASB, application of the current guidance is commonly thought to be too complex, and it results in too many transactions qualifying as business combinations.

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

2.3 Changes in accounting policies (Continued)

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 2018 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 16 Leases

The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption. As a result, all right-of-use assets will be measured at the amount of the lease liability on adoption (adjusted for any prepaid or accrued lease expenses). As at the reporting date, the assessment of the Group related to the impacts of TFRS 16 on its consolidated financial statements continues. These studies are managed by the Group including all its subsidiaries. The Group's activities as a lessor are not material.

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.
- e) The Group has made certain assumptions based on experiences of technical personnel in determining impairment for inventories.

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

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

2.5 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.

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 2018 and 2017:

Subsidiaries	2018		2017	
	Direct and indirect ownership (%)	Proportion of effective interest (%)	Direct and indirect ownership (%)	Proportion of effective interest (%)
Otokar Europe SAS	100	100	100	100
Otokar Land Systems LLC	100	100	100	100
Otokar Europe Filiala Bucuresti SRL	100	100	-	-

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO CONSOLIDATED YEARS ENDED FINANCIAL STATEMENTS AT 31 DECEMBER 2018 AND 2017

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

2.5 Summary of significant accounting policies (Continued)

Joint Ventures

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

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

The table below sets out all joint ventures and shows the direct and indirect ownership and proportion of effective interest of the Group in these joint ventures at 31 December 2018 and 2017:

Joint ventures	2018		2017	
	Direct and indirect ownership (%)	Proportion of effective interest (%)	Direct and indirect ownership (%)	Proportion of effective interest (%)
Al Jasoor Heavy Vehicles Industry LLC (*)	49	49	49	49

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

Revenue recognition

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

Group recognizes revenue based on the following main principles:

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

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO CONSOLIDATED YEARS ENDED FINANCIAL STATEMENTS AT 31 DECEMBER 2018 AND 2017

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

2.5 Summary of significant accounting policies (Continued)

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

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

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

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

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

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

Revenue from sale of goods

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

Revenue from sale of extended warranty

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

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

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

2.5 Summary of significant accounting policies (Continued)

Related parties

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

Inventories

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

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

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

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

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ**NOTES TO CONSOLIDATED YEARS ENDED FINANCIAL STATEMENTS AT 31 DECEMBER 2018 AND 2017**

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

NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (Continued)**2.5 Summary of significant accounting policies (Continued)****Property, plant and equipment**

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

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

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

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

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

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

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

Intangible assets

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

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO CONSOLIDATED YEARS ENDED FINANCIAL STATEMENTS AT 31 DECEMBER 2018 AND 2017

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

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

2.5 Summary of significant accounting policies (Continued)

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

Research and development expenses

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

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

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

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

Investment, research and development incentives

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

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

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ**NOTES TO CONSOLIDATED YEARS ENDED FINANCIAL STATEMENTS AT 31 DECEMBER 2018 AND 2017**

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

NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (Continued)**2.5 Summary of significant accounting policies (Continued)****Income taxes**

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

The current income tax charge is calculated in accordance with the tax laws enacted or substantively enacted at the balance sheet date in Turkey. Under the Turkish Tax Code, companies having head office or place of business in Turkey are subject to corporate tax.

A provisional tax accrual is recognized in the financial statements for current taxation. Current tax charge is calculated over operational results considering the effects of disallowable and exemptions.

Furthermore, provisional corporate taxes are paid at 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 and liabilities are presented net in the consolidated financial statements.

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.

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO CONSOLIDATED YEARS ENDED FINANCIAL STATEMENTS AT 31 DECEMBER 2018 AND 2017

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

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

2.5 Summary of significant accounting policies (Continued)

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

Foreign currency transactions

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

Provisions

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

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

Contingent liabilities and assets

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

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

Share capital and dividend

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

Operational leases

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

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO CONSOLIDATED YEARS ENDED FINANCIAL STATEMENTS AT 31 DECEMBER 2018 AND 2017

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

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

2.5 Summary of significant accounting policies (Continued)

Warranty expenses

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

Financial instruments

Financial assets

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

Financial assets measured at amortised cost

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

Financial assets carried at fair value through profit or loss

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

Cash and cash equivalents

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

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

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO CONSOLIDATED YEARS ENDED FINANCIAL STATEMENTS AT 31 DECEMBER 2018 AND 2017

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

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

2.5 Summary of significant accounting policies (Continued)

Trade receivables

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

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

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

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

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

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

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

Trade payables

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

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ**NOTES TO CONSOLIDATED YEARS ENDED FINANCIAL STATEMENTS AT 31 DECEMBER 2018 AND 2017**

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

NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (Continued)**2.5 Summary of significant accounting policies (Continued)****Borrowings**

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

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

Derivative financial instruments

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

Impairments in financial assets

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

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

Recognition and derecognition of financial assets and liabilities

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

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.

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO CONSOLIDATED YEARS ENDED FINANCIAL STATEMENTS AT 31 DECEMBER 2018 AND 2017

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

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

2.5 Summary of significant accounting policies (Continued)

Foreign currency transactions

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

Earnings per share

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

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

Subsequent events

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

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

Impairment of non-financial assets

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

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.

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO CONSOLIDATED YEARS ENDED FINANCIAL STATEMENTS AT 31 DECEMBER 2018 AND 2017

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

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

2.5 Summary of significant accounting policies (Continued)

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

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

Borrowing costs

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

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

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

Offsetting

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

NOTE 3 - SEGMENT REPORTING

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

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

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO CONSOLIDATED YEARS ENDED FINANCIAL STATEMENTS AT 31 DECEMBER 2018 AND 2017

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

NOTE 4 - CASH AND CASH EQUIVALENTS

	31 December 2018	31 December 2017
Banks		
- time deposits	134,463	214,933
- demand deposits	37,799	12,434
Cheques and notes receivable	596	1,513
Other	159	78
	173,017	228,958

As of 31 December 2018, TL 134,463 thousand of the total amount of time deposits amounting to TL 120,917 thousand is denominated in foreign currency and the annual effective interest rate is 0.24% and has a maturity of 2 days. The annual effective interest rate of the remaining TL 13,546 thousand is 21.75% and has a maturity of 2 days.

(As of 31 December 2017, TL 214,933 thousand of the total amount of time deposits amounting to TL 214,849 thousand is denominated in foreign currency and the annual effective interest rate is 1.00% and has a maturity of 3 days. The annual effective interest rate of the remaining TL 84 thousand is 8.25% and has a maturity of 4 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 2018, the Group has restricted bank deposit amounting to TL 450 thousand (31 December 2017: TL 0.2 thousand).

NOTE 5 – INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

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

	2018	
Joint ventures	(%)	Amount
Al Jasoor	49.00	13,305

The movement of joint venture is as follows:

	2018
1 January	-
Shares of profit	12,182
Currency translation differences	1,123
31 December	13,305

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO CONSOLIDATED YEARS ENDED FINANCIAL STATEMENTS AT 31 DECEMBER 2018 AND 2017

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

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

The summary of the financial statements of Al Jasoor as of 31 December 2018 is as follows:

	31 December 2018
Total assets	1,547,656
Total liabilities	1,520,502
Net assets	27,154
Ownership of the Group	49%
Net asset share of the Group	13,305

NOTE 6 - BORROWINGS

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

(*) Bearing fixed interest rate.

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

(*) Bearing fixed interest rate

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO CONSOLIDATED YEARS ENDED FINANCIAL STATEMENTS AT 31 DECEMBER 2018 AND 2017

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

NOTE 6 - BORROWINGS (Continued)

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
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.

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

As of 31 December 2018, the Group has not provided any guarantees for the borrowings (31 December 2017: None).

The movement of the borrowings for the years ended 31 December 2018 and 2017 are as follows:

	2018		2017	
1 January		703,658		430,119
Borrowing received during the period		1,363,530		1,119,456
Principal payments (-)		(1,394,191)		(893,393)
Change in interest accruals		17,267		8,615
Change in exchange rates		17,283		38,861
31 December		707,547		703,658
	31 December 2018		31 December 2017	
	Carrying values	Fair values	Carrying values	Fair values
Fixed interest	707,547	730,140	703,658	705,614

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ**NOTES TO CONSOLIDATED YEARS ENDED FINANCIAL STATEMENTS AT 31 DECEMBER 2018 AND 2017**

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

NOTE 7 - DERIVATIVE FINANCIAL INSTRUMENTS

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

	Contract amount	Current period contract maturity	Fair value assets
31 December 2018			
		10 January 2019-	
Forward transactions	940,306	7 February 2019	297
Short-term derivative financial instruments	940,306		297
Total derivative financial instruments	940,306		297

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

NOTE 8 - TRADE RECEIVABLES AND PAYABLES**Trade receivables**

	31 December 2018	31 December 2017
Trade receivables, net	426,547	268,152
Notes receivables, net	88,378	181,506
	514,925	449,658
Less: provision for doubtful receivables	(43,512)	(33,985)
Short-term trade receivables	471,413	415,673
Trade receivables from related parties (Note 27)	399,044	29,656
Short-term trade receivables	870,457	445,329
Long-term notes receivable, net	7,930	10,235
Long-term trade receivables	7,930	10,235

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO CONSOLIDATED YEARS ENDED FINANCIAL STATEMENTS AT 31 DECEMBER 2018 AND 2017

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

NOTE 8 - TRADE RECEIVABLES AND PAYABLES (Continued)

As of 31 December 2018, the average maturity of trade receivables is between 60-90 days (excluding notes receivables) (31 December 2017 60-90 days).

As of 31 December 2018 and 2017, 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 2018, the total trade receivable from dealers amounting to TL59,217 thousand (31 December 2017: TL157,074 thousand), after provision provided for doubtful receivables, has been secured by mortgages and guarantees at the amount of TL59,635 thousand (31 December 2017: TL193,792 thousand). The Group manages the credit risk of remaining balance in the manner described in the Credit Risk section of Note 28 to the consolidated financial statements.

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

31 December 2018	
1- 30 day past due	-
1- 3 month past due	-
3- 12 month past due	-
1- 5 year past due	255
Over 5 years past due	-
	255
Amount secured with guarantees	255
31 December 2017	
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	-
	236
Amount secured with guarantees	236

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

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ**NOTES TO CONSOLIDATED YEARS ENDED FINANCIAL STATEMENTS AT 31 DECEMBER 2018 AND 2017**

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

NOTE 8 - TRADE RECEIVABLES AND PAYABLES (Continued)

The movement of the provision for doubtful receivables for the years ended 31 December 2018 and 2017 are as follows:

	2018	2017
As of 1 January	33,985	28,910
Collections	(362)	(9)
Currency translation differences	404	232
Exchange differences	9,485	4,805
Increase during the year	-	47
31 December	43,512	33,985

Trade payables

	31 December 2018	31 December 2017
Trade payables, net	243,707	47,667
Notes payables, net	406	356
Short-term other trade payables	244,113	48,023
Trade payables to related parties (Note 27)	25,346	14,094
Short-term trade payables	269,459	62,117

As of 31 December 2018, average payment term for trade payables is 45-60 days (31 December 2017: 45-60 days).

As of 31 December 2018 and 2017, the fair values of trade payables approximate to their carrying values due to short-term maturity of those payables.

NOTE 9 - OTHER RECEIVABLES AND PAYABLES**Other short-term receivables**

	31 December 2018	31 December 2017
Deposits and guarantees given	87	67
Due from personnel	217	1
Total	304	68

Other long-term receivables

	31 December 2018	31 December 2017
Deposits and guarantees given	707	281
	707	281

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NOTE 9 - OTHER RECEIVABLES AND PAYABLES (Continued)

Other short-term payables

	31 December 2018	31 December 2017
Other miscellaneous payables	43,292	42,549
	43,292	42,549

As explained in Note 15, TL36,169 thousand (31 December 2017: TL36,169 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 2018	31 December 2017
Raw material	295,244	163,088
Semi-finished goods	23,747	14,140
Finished goods	168,122	83,286
Merchandise goods	111,391	75,478
Goods in transit	97,501	77,764
Impairment for inventories (*)	(5,992)	(700)
	690,013	413,056

(*) TL127 thousand of impairment is related to finished goods (31 December 2017: TL155 thousand) and TL562 thousand is related to merchandises (31 December 2017: TL545 thousand). The impairment has been accounted for under cost of sales.

The movements of impairment for inventories in 2018 and 2017 are as follows:

	2018	2017
1 January	(700)	(706)
Increase during the period	(5,320)	-
Reversal of provisions	28	6
31 December	(5,992)	(700)

NOTE 11 - DUE FROM CUSTOMERS ON CONTRACT WORKS

As of 31 December 2018, there is no receivable balance related to due from customers on contract works (31 December 2017: TL 312,030 thousand).

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NOTES TO CONSOLIDATED YEARS ENDED FINANCIAL STATEMENTS AT 31 DECEMBER 2018 AND 2017

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

NOTE 12 - PROPERTY, PLANT AND EQUIPMENT

Movements of property, plant and equipment and related accumulated depreciation for the years ended 31 December 2018:

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

Movements in property, plant and equipment and related accumulated depreciation for the year ended 31 December 2018 are as follows: (31 December 2017: None).

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NOTE 12 - PROPERTY, PLANT AND EQUIPMENT (Continued)

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

	1 January 2017	Additions	Currency translation differences	Disposal	Transferler	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

The distribution of depreciation and amortization expenses of tangible and intangible assets for the years ended 31 December 2018 and 2017 are as follows:

	2018	2017
Research and development expenses	47,800	43,528
Costs related to uncompleted contracts	5,924	5,476
Cost of goods sold	2,324	1,987
Development projects in process	2,103	1,692
Depreciation on inventories	1,379	1,092
General administrative expenses	1,203	1,432
Selling and marketing expenses	236	95
Currency translation differences	39	6,806
	61,008	62,108

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NOTES TO CONSOLIDATED YEARS ENDED FINANCIAL STATEMENTS AT 31 DECEMBER 2018 AND 2017

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

NOTE 13 - INTANGIBLE ASSETS

Movements of intangible assets and related accumulated amortisation for the years ended 31 December 2018.

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

In 2018, the Group has capitalised TL 8,008 thousand (2017: TL 4,517 thousand) of its borrowing costs in relation to its qualifying asset.

For the year ended 31 December 2017, the movements of intangible assets and related amortization are as follows:

	1 January 2017	Additions	Currency translation differences	Disposals	Transfers	31 December 2017
Cost						
Other intangible assets	18,028	1,999	-	-	204	20,231
Development costs	297,383	-	-	(7,033)	55,353	345,703
Development 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

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NOTES TO CONSOLIDATED YEARS ENDED FINANCIAL STATEMENTS AT 31 DECEMBER 2018 AND 2017

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NOTE 14 - GOVERNMENT GRANTS AND INCENTIVES

	31 December 2018	31 December 2017
Short-term	1,283	1,940
Long-term	1,124	1,441
	2,407	3,381

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 Aralık 2018	31 Aralık 2017
Other cost allowance	-	324,431
Provision for warranty expenses	43,778	53,065
Employee benefits		
short-term provisions (Note 16)	10,443	9,286
Other	50,060	17,153
	104,281	403,935

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:

	2018	2017
1 January	324,431	340,870
Exchange differences	241,180	18,398
Disposals/payments (-)	(565,611)	(34,837)
31 December	-	324,431

Warranty provision

The Group covers the vehicles it has sold for a period of 2 years. Accordingly, as of the balance sheet date, a provision is provided for the warranty expenses for the vehicles under warranty.

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

As of 31 December 2018 and 2017, the tables which represent the position of guarantees, pledges and mortgages are as follows:

	2018	2017
1 January	53,065	41,385
Additional provision	46,276	55,462
Claim payments (-)	(55,563)	(43,782)
31 December	43,778	53,065

Commitments and contingencies

As of 31 December 2018 and 2017, the tables which represent the position of guarantees, pledges and mortgages are as follows:

	31 December 2018	31 December 2017
a. Total amount of guarantees, pledges and mortgages given the name of legal entity	1,379,859	1,853,700
b. Total amount of guarantees, pledges and mortgages given in favour of the parties which are included in the scope of full consolidation	-	-
c. Total amount of guarantees, pledges and mortgages given to third parties for their liabilities in the purpose of conducting the ordinary operations	-	-
d. Total amount of other guarantees, pledges and mortgages	-	-
	1,379,859	1,853,700

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

	31 December 2018		31 December 2017	
	Original currency	TL equivalent	Original currency	TL equivalent
USD	201,235	1,058,679	397,404	1,498,967
EUR	46,295	279,068	55,818	252,047
TL	42,112	42,112	102,686	102,686
		1,379,859		1,853,700

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NOTES TO CONSOLIDATED YEARS ENDED FINANCIAL STATEMENTS AT 31 DECEMBER 2018 AND 2017

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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 2018	31 December 2017
Guarantee letters given		
Under secretariat of Ministry of Defense	251,984	1,090,079
Other	1,127,875	763,621
	1,379,859	1,853,700

Guarantee letters

a) Guarantees given as of 31 December 2018 and 2017 are as follows:

	31 December 2018	31 December 2017
Bank letters of guarantee (*)	1,379,859	1,853,700
	1,379,859	1,853,700

(*) Bank letters of guarantee amounting to TL155,933 are given to Secretariat of Ministry of Defense for Altay Project (31 December 2017: TL938,865).

b) Guarantees received as of 31 December 2018 and 31 December 2017 are as follows:

	31 December 2018	31 December 2017
Bank letters of guarantee (**)	336,045	651,824
Guarantee notes	20,195	14,550
Mortgages received	20	20
	356,260	666,394

(**) Bank letters of guarantee amounting to TL49,446 are obtained from the sub-contractors for Altay Project (31 December 2017: TL340,829).

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 TL36,169. The amount of the legal case for 2015 is TL4,557. The case was also concluded in favor of the Group but the appeal phase is still in progress. It was learned on 31 May 2018 by the decision of the Company Management that the appeal process ended in favor of the Group. The administration has sent an appeal to the Council of State to appeal the decision in favor of the Group and the appeal stage continues.

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NOTE 16 - EMPLOYEE BENEFITS

	31 December 2018	31 December 2017
Provision for employment termination benefits	38,235	31,693
Provision for unused vacation	10,443	9,286
	48,678	40,979

Employment termination benefits

The amount payable consists of one month's salary limited to a maximum of TL 5,434.42 in full for each year of service as of 31 December 2018 (31 December 2017: TL 4,732.48 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 6,017.60 in full (1 January 2018: TL 5,001.76 in full), which is effective from 1 January 2019, 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 2018	31 December 2017
Net discount rate (%)	5.65	4.95
Turnover rate to estimate the probability of retirement (%)	96.76	97.28

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

	2018	2017
1 January	31,693	28,088
Interest expense	2,868	2,542
Charge for the period	12,392	6,400
Remeasurement differences	(1,659)	(136)
Payments	(7,059)	(5,201)
31 December	38,235	31,693

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NOTE 16 - EMPLOYEE BENEFITS (Continued)

Provision for unused vacation

The movements of provision for unused vacation are as follows:

	2018	2017
1 January	9,286	8,491
Charge for the period, net (Note 21)	1,157	795
31 December	10,443	9,286

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

a) Prepaid expenses

	31 December 2018	31 December 2017
Advances given	-	185,594
Prepaid expenses	7,470	4,559
	7,470	190,153

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

b) Other current assets

	31 December 2018	31 December 2017
Value added tax receivables	57,546	39,832
Other	3,377	800
	60,923	40,632

c) Deferred revenues

Deferred revenues - short term	31 December 2018	31 December 2017
Advances received	191,607	11,647
Deferred maintenance revenues	5,184	9,437
	196,791	21,084

Deferred revenues - long term	31 December 2018	31 December 2017
Advance received	469,884	430,580
Deferred maintenance revenues	35,511	-
	505,395	430,580

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NOTE 17 - PREPAID EXPENSES, DEFERRED REVENUE, OTHER ASSETS AND LIABILITIES (Continued)**d) Employee benefits obligation**

	31 December 2018	31 December 2017
Payables to employees	14,520	11,764
Social security payables	8,014	6,197
Taxes and funds payable	7,810	6,333
	30,344	24,294

e) Other current liabilities

	31 December 2018	31 December 2017
Taxes and funds payable	13,688	1,709
Deferred special consumption tax	911	444
Payables to shareholders	105	-
Other	705	589
	15,409	2,742

NOTE 18 - EQUITY**Share capital**

As of 31 December 2018 and 2017, the principal shareholders and their respective shareholding percentages are as follows:

	31 December 2018		31 December 2017	
	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	100.00	24,000	100.00
Inflation adjustment on equity items	52,743		52,743	
	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.

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NOTE 18 - EQUITY (Continued)

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

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

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

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

	31 December 2018	31 December 2017
Paid-in share capital	24,000	24,000
Inflation adjustment on equity items	52,743	52,743
Restricted reserves	66,678	59,798
Accumulated other comprehensive income and expense that is not subject to reclassification to income or loss	(3,586)	(4,880)
Accumulated other comprehensive income and expense that is subject to reclassification to income or loss	12,997	2,396
Retained earnings		
- Extraordinary reserves	61,468	39,124
- Inflation adjustments on legal reserves	10,950	10,950
Net income for the year	164,336	99,423
Total	389,586	283,554

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NOTE 18 - EQUITY (Continued)

As of December 31, 2018 and 2017, the restated amounts and the equity restatement differences of the aforementioned nominal values are as follows:

31 December 2018

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

31 December 2017

	Historical value	Inflation adjustments on equity items	Restated value
Share capital	24,000	52,743	76,743
Legal reserves	59,798	10,950	70,748
	83,798	63,693	147,491

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

	31 December 2018	31 December 2017
Legal reserves	66,678	59,895
Extraordinary reserves	48,350	87,093
	115,028	146,988

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

70,000

60,000

Dividend paid per share (piaster)

0,292

0,250

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 2018	1 January - 31 December 2017
Domestic sales	595,707	1,241,020
Export sales	1,101,378	552,285
Gross Sales	1,697,085	1,793,305
Less: sales discounts and returns	(18,424)	(8,033)
Net sales	1,678,661	1,785,272

Sales of the Group for the years ended 31 December 2018 and 2017 in terms of the products are as follows:

	1 January - 31 December 2018	1 January - 31 December 2017
Commercial vehicle	857,541	701,723
Armored vehicle	591,671	799,089
Accrued earnings related to construction contracts	23,896	79,877
Other sales (*)	205,553	204,583
	1,678,661	1,785,272

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

Cost of sales

	1 January - 31 December 2018	1 January - 31 December 2017
Cost of finished goods sold	(982,150)	(1,208,644)
Cost of merchandise goods sold	(103,554)	(105,002)
	(1,085,704)	(1,313,646)

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

	1 January - 31 December 2018	1 January - 31 December 2017
Sales and marketing expenses	(285,053)	(234,662)
General administrative expenses	(91,886)	(69,524)
Research and development expenses	(50,481)	(43,644)
	(427,420)	(347,830)

NOTE 21 - EXPENSES BY NATURE

	1 January - 31 December 2018	1 January - 31 December 2017
Cost of raw material and consumption goods	854,610	931,349
Personnel expenses	234,802	204,816
Cost of merchandises sold	112,697	119,446
Sales, incentives and premiums	64,741	33,978
Administrative expenses	63,255	50,227
Depreciation and amortization expense	58,448	60,026
Warranty provision expense (Note 15)	46,276	55,462
Operational expenses	33,630	31,713
Transportation, distribution and storage expenses	27,436	20,268
Advertising, promotion and promotion costs	21,511	19,435
Change in finished and semi-finished goods	(94,443)	92,758
Other expenses	90,161	41,998
	1,513,124	1,661,476

The breakdown of personnel expenses for the years 2018 and 2017 is as follows:

	1 January - 31 December 2018	1 January - 31 December 2017
Based on the account it's recorded:		
Cost of sales and inventories on hand	114,268	94,162
Sales and marketing expenses	65,582	52,589
Capitalized development expenditures	50,513	35,817
General administrative expenses	32,511	28,121
Costs related to uncompleted contracts	19,757	29,829
Research and development expenses	2,684	115
	285,315	240,633

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NOTE 21 - EXPENSES BY NATURE (Continued)

	1 January - 31 December 2018	1 January - 31 December 2018
By nature		
Wages and salaries	220,260	186,625
Social security premiums	26,879	24,427
Other social benefits	19,481	17,807
Provision for employment termination benefits	15,603	9,082
Provision for vacation pay liability	1,157	795
Other	1,935	1,897
	285,315	240,633

NOTE 22 - OTHER OPERATING INCOME AND EXPENSES

	1 January - 31 December 2018	1 January - 31 December 2018
Other operating income		
Foreign exchange gains on operating activities	235,978	375,918
Gain on forward transactions	53,126	37,756
Revenue from charge of due date receivables	30,255	20,780
Incentives income	1,940	2,156
Other	23,402	12,054
	344,701	448,664

	1 January - 31 December 2018	1 January - 31 December 2018
Other operating expenses		
Foreign exchange loss on operating activities	(241,979)	(297,324)
Loss on forward transactions	(27,027)	(44,338)
Provision for doubtful receivables (Note 8)	(9,485)	(4,852)
Other	(335)	(232)
	(278,826)	(346,746)

NOTE 23 - FINANCIAL INCOME

	1 January - 31 December 2018	1 January - 31 December 2018
Interest income from time deposits	28,649	13,498
Foreign exchange gains on deposits	13,265	-
Foreign exchange gains on bank borrowings	3,977	1,050
	45,891	14,548

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ**NOTES TO CONSOLIDATED YEARS ENDED FINANCIAL STATEMENTS AT 31 DECEMBER 2018 AND 2017**

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

NOTE 24 - FINANCIAL EXPENSES

	1 January - 31 December 2018	1 January - 31 December 2017
Interest expense on bank borrowings	(120,609)	(95,782)
Foreign exchange losses on bank borrowings	(30,547)	(38,861)
Foreign exchange losses on deposits	(14,426)	(15,873)
Other	(304)	(290)
	(165,886)	(150,806)

NOTE 25 - TAX ASSETS AND LIABILITIES

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

In Turkey, the corporation tax rate is 22% (2017 - 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 22% to be calculated and paid based on earnings generated for each quarter. The amounts thus calculated and paid are offset against the final corporate tax liability for the year.

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

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

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

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

As a result of its research and development expenditures made in 2018 amounting to TL 328,546 (2017: TL 105,370). The Group has utilized research and development incentives at 100% deduction without any withholding tax. The Company has an R&D center certificate.

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO CONSOLIDATED YEARS ENDED FINANCIAL STATEMENTS AT 31 DECEMBER 2018 AND 2017

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

NOTE 25 - TAX ASSETS AND LIABILITIES (Continued)

As of 31 December 2018 and 2017, income tax payables are presented net of prepaid taxes in the balance sheet as follows:

	31 December 2018	31 December 2017
Income tax payable	632	66
Prepaid taxes (-)	(65)	-
	567	66

The breakdown of total tax expense for the years ended 31 December 2018 and 2017 are as follows:

	31 December 2018	31 December 2017
Current tax charge	(632)	(66)
Deferred tax income / expense reflected in profit or loss		
Charged to profit for the period	43,823	8,783
Charged to other comprehensive income	(365)	(30)
	42,826	8,687

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

	1 January - 31 December 2018	1 January - 31 December 2017
Profit before tax	121,145	90,706
Income tax charge at effective tax rate 22%	(26,652)	(18,141)
Disallowable expenses	(7,527)	-
Discounts and exceptions	73,621	33,934
Tax effect on gain on investments accounted for using the equity method	2,680	-
Impact of foreign companies subject to different tax rates	2,702	-
Other	(1,998)	(7,106)
	42,826	8,687

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

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NOTES TO CONSOLIDATED YEARS ENDED FINANCIAL STATEMENTS AT 31 DECEMBER 2018 AND 2017

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NOTE 25 - TAX ASSETS AND LIABILITIES (Continued)

As of 31 December 2018 and 2017, 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 2018	31 December 2017	31 December 2018	31 December 2017
Incentives from research and development activities (*)	334,643	123,033	73,621	27,067
Property, plant and equipment	(19,389)	(7,723)	(396)	1,937
Intangible assets	(71,733)	(53,814)	(14,347)	(10,763)
Deferred financial expenses	(1,410)	(453)	(310)	(100)
Inventories	6,519	996	1,424	213
Warranty provision	43,778	53,065	9,403	11,260
Provision for employment termination benefits	38,235	31,693	7,647	6,339
Deferred financial income	880	1,044	194	230
Other provisions	54,726	23,052	11,198	4,851
Deferred maintenance income	41,876	9,437	6,511	2,076
Due from customers on contract works	-	9,732	-	2,141
Other	(24,019)	25,566	(4,881)	1,355
Deferred tax assets, net			90,064	46,606

(*) 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 December 31, 2018, the tax advantage of TL334,643 (31 December 2017: TL123,033), 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 TL164,801 for aforementioned years is still going on.

The movement of deferred tax asset for the years ended 31 December 2018 and 2017 are as follows:

	2018	2017
1 January	46,606	37,853
Deferred tax income		
Charged to profit for the period	43,823	8,783
Charged to other comprehensive income	(365)	(30)
31 December	90,064	46,606

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NOTES TO CONSOLIDATED YEARS ENDED FINANCIAL STATEMENTS AT 31 DECEMBER 2018 AND 2017

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

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 2018	31 December 2017
Net income attributable to shareholders (TL)	164,336	99,423
Weighted average number of issued shares	24,000,000,000	24,000,000,000
Earnings per share (Piastre)	0.685	0.414

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 2018 and 2017:

Due from related parties	31 December 2018	31 December 2017
Ram Dış Ticaret A.Ş. (1) (*)	271,758	28,958
Al Jasoor Heavy Vehicle Industry LLC (3) (**)	126,822	-
Ford Otosan A.Ş. (1), (2)	464	698
	399,044	29,656

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

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

Due to related parties	31 December 2018	31 December 2017
Koç Holding A.Ş. (2)	7,083	5,353
Ram Dış Ticaret A.Ş. (1)	6,916	2,996
Zer Merkezi Hizmetler A.Ş. (1)	5,836	2,974
Setur Servis Turistik A.Ş. (1)	1,245	618
Koç Sistem Bilgi ve İletişim Hiz. A.Ş. (1)	931	213
Otokoç Otomotiv Tic. ve San. A.Ş. (1)	788	596
Türk Traktör ve Ziraat Makineleri A.Ş.(1)	707	-
Other (1)	1,840	1,344
	25,346	14,094

(1) Related parties of the parent company

(2) Shareholder

(3) Joint venture

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ**NOTES TO CONSOLIDATED YEARS ENDED FINANCIAL STATEMENTS AT 31 DECEMBER 2018 AND 2017**

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

NOTE 27 - RELATED PARTY DISCLOSURES (Continued)

Advances received from related parties	31 December 2018	31 December 2017
Al Jasoor Heavy Vehicle Industry LLC (3) (*)	652,617	432,553
	652,617	432,553

(*) These are the advances received due to sales to Al Jasoor Heavy Vehicles Industry LLC, which is a Joint Venture of the Group.

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

Sales of products and services	1 January - 31 December 2018	1 January - 31 December 2017
Ram Dış Ticaret A.Ş. (1) (*)	407,999	228,849
Al Jasoor Heavy Vehicles Industry LLC (3)	172,279	-
Diğer (1)	239	134
	580,517	228,983

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

Fixed asset purchases	1 January - 31 December 2018	1 January - 31 December 2017
Koç Sistem Bilgi ve İletişim Hiz. A.Ş. (1)	2,288	2,802
Otokoç Otomotiv Tic. ve San. A.Ş. (1)	167	281
Zer Merkezi Hizmetler A.Ş. (1)	117	486
Other (1)	20	62
	2,592	3,631

Inventory purchases	1 January - 31 December 2018	1 January - 31 December 2017
Zer Merkezi Hizmetler A.Ş. (1)	37,505	27,773
Ram Dış Ticaret A.Ş. (1)	7,904	4,345
Opet Petrolcülük A.Ş. (1)	3,761	3,192
Akpa Dayanıklı Tük. Paz. A.Ş. (1)	2,359	2,328
Opet Fuchs Madeni Yağ A.Ş. (1)	2,321	2,246
Other (1)	834	3,896
	54,684	43,780

(1) Related parties of the parent company

(2) Shareholder

(3) Joint venture

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

NOTE 27 - RELATED PARTY DISCLOSURES (Continued)

Service purchases	1 January - 31 December 2018	1 January - 31 December 2017
Ram Dış Ticaret A.Ş. (1)	39,615	17,164
Setur Servis Turistik A.Ş. (1)	10,036	7,985
Koç Holding A.Ş. (2) (*)	9,509	8,170
Koç Sistem Bilgi ve İlt. Hiz. A.Ş. (1)	7,159	3,059
Otokoç Otomotiv Tic. ve San. A.Ş. (1)	5,846	3,938
Ram Sigorta Aracılık Hiz. A.Ş. (1) (**)	5,027	3,605
Eltek Elektrik Enerji İth. İhr. Top. Tic. A.Ş. (1)	1,132	4,163
Other (1)	3,239	1,902
	81,563	49,986

(*) 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 2018 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 2018	31 December 2017
Yapı ve Kredi Bankası A.Ş. (1)		
- Time deposits	15,631	1,821
- Deposit deposits	471	3
	16,102	1,824

Checks and notes in collection	31 December 2018	31 December 2017
Yapı ve Kredi Bankası A.Ş. (1)	2,662	4,119
	2,662	4,119

(1) Related parties of the parent company

(2) Shareholder

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ**NOTES TO CONSOLIDATED YEARS ENDED FINANCIAL STATEMENTS AT 31 DECEMBER 2018 AND 2017**

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

NOT 27 - RELATED PARTY DISCLOSURES (Continued)

For the years ended 31 December 2018 and 2017, financial income and expense with related parties:

	1 January - 31 December 2018	1 January - 31 December 2017
Trade receivables and payables		
foreign exchange gains		
Ram Dış Ticaret A.Ş. (1)	42,596	25,321
Yapı ve Kredi Bankası A.Ş. (1)	9,193	8,650
Other(1)	338	82
	52,127	34,053

	1 January - 31 December 2018	1 January - 31 December 2017
Trade receivables and payables		
foreign exchange expenses		
Ram Dış Ticaret A.Ş. (1)	16,345	9,549
Zer Merkezi Hizmetler A.Ş. (1)	1,003	365
Yapı Kredi Faktöring A.Ş. (1)	-	12,678
Other (1)	7,909	5,516
	25,257	28,108

For the years ended 31 December 2018 and 2017, financial income and expense with related parties:

	1 January - 31 December 2018	1 January - 31 December 2017
Interest income		
Yapı ve Kredi Bankası A.Ş. (1)	431	183
	431	183
	1 January - 31 December 2018	1 January - 31 December 2017
Interest expense		
Yapı ve Kredi Bankası A.Ş. (1)	214	742
	214	742

(1) Related parties of the parent company

Benefits provided to senior executives

For the year ended 31 December 2018, the total amount of benefits provided to senior management is TL 17,518 thousand (31 December 2017: TL 14,762 thousand). The senior executives consist of board members, general manager and deputy general managers.

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO CONSOLIDATED YEARS ENDED FINANCIAL STATEMENTS AT 31 DECEMBER 2018 AND 2017

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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 (Note 8).

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

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ**NOTES TO CONSOLIDATED YEARS ENDED FINANCIAL STATEMENTS AT 31 DECEMBER 2018 AND 2017**

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

31 December 2017	Receivables			
	Trade receivables	Other	Bank deposits	Derivative instrument
Maximum credit risk exposure as of reporting date (A+B+C+D+E) (1)	455,564	349	227,367	1,325
- 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	330	-	-	-
- Not overdue (gross book value)	-	-	-	-
- Impairment (-)	-	-	-	-
- Net value under guarantee	-	-	-	-
E. Off- balance sheet items having credit risk	-	-	-	-

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

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

Liquidity risk

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

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

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

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

As of 31 December 2018 and 2017, maturities of gross trade payables and financial liabilities are as follows:

31 December 2018

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

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NOTES TO CONSOLIDATED YEARS ENDED FINANCIAL STATEMENTS AT 31 DECEMBER 2018 AND 2017

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

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 years	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	Between 3-12 month	Between 1-5 years	Over 5 years
Derivative financial liabilities (net)						
Derivative cash inflows	1,325	1,325	1,325	-	-	-
Derivative cash outflows	260,648	260,648	260,648	-	-	-
	(259,323)	(259,323)	(259,323)	-	-	-

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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NOTES TO CONSOLIDATED YEARS ENDED FINANCIAL STATEMENTS AT 31 DECEMBER 2018 AND 2017

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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 2018		TL equivalent (functional currency)	USD	EUR	GBP	OVERVIEW GENERAL ASSEMBLY OTOKAR IN 2018 CORPORATE GOVERNANCE FINANCIAL STATEMENTS INFORMATION DOCUMENT
1.	Trade receivables	805,011	76,525	66,210	497	
2a.	Monetary financial assets (including cash, bank accounts)	67,110	3,371	8,191	-	
2b.	Non-monetary financial assets	-	-	-	-	
3.	Other	58	11	-	-	
4.	Current assets (1+2+3)	872,179	79,907	74,401	497	
5.	Trade receivables	7,933	-	1,316	-	
6a.	Monetary financial assets	-	-	-	-	
6b.	Non-monetary financial assets	-	-	-	-	
7.	Other	-	-	-	-	
8.	Non-current assets (5+6+7)	7,933	-	1,316	-	
9.	Total assets((4+8)	880,111	79,907	75,717	497	
10.	Trade payables	(165,872)	(19,894)	(10,117)	(34)	
11.	Financial liabilities	-	-	-	-	
12a.	Monetary other liabilities	(8,871)	(929)	(630)	(28)	
12b.	Non-monetary other liabilities	-	-	-	-	
13.	Current liabilities (10+11+12)	(174,743)	(20,823)	(10,747)	(62)	
14.	Trade payables	-	-	-	-	
15.	Financial liabilities	(60,268)	-	(9,998)	-	
16a.	Monetary other liabilities	(522,327)	(99,285)	-	-	
16b.	Non-monetary other liabilities	-	-	-	-	
17.	Non-current liabilities (14+15+16)	(582,595)	(99,285)	(9,998)	-	
18.	Total liabilities (13+17)	(757,338)	(120,108)	(20,745)	(62)	
	Net balance sheet position (9+18)	122,773	(40,201)	54,972	435	
19.	Net asset/(liability) position of off-balance sheet derivative instruments((19a-19b)	(106,438)	41,069	(53,500)	-	
19a.	Hedged total assets amount	342,322	65,069	-	-	
19b.	Hedged total liabilities amount	(448,760)	(24,000)	(53,500)	-	
20.	Net foreign currency asset/(liability) position (9+18+19)	16,334	868	1,472	435	
21.	Net foreign currency asset/(liability) position of monetary items (=1+2a+5+6a-10-11-12a-14-15-16a)	122,714	(40,212)	54,972	435	
22.	Total fair value of financial instruments used for foreign currency hedging	(299)	(1,722)	1,223	200	
23.	Export	1,092,424	90,564	83,810	529	
24.	Import	639,474	58,468	59,705	1,048	

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NOTES TO CONSOLIDATED YEARS ENDED FINANCIAL STATEMENTS AT 31 DECEMBER 2018 AND 2017

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

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

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	52,726	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

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO CONSOLIDATED YEARS ENDED FINANCIAL STATEMENTS AT 31 DECEMBER 2018 AND 2017

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

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

The following table demonstrates the sensitivity to a possible change of 10% in the USD, Euro and GBP exchange rates, with all other variables held constant, on the Group's income before tax as of 31 December 2018 and 2017:

	Profit before tax Appreciation of foreign currency	Profit before tax Depreciation of foreign currency
31 December 2018		
<i>In case 10% appreciation of USD against TL:</i>		
1- USD net asset/liability	457	(457)
2- Amount hedged for USD risk (-)		
3- USD net effect (1+2)	457	(457)
<i>In case 10% appreciation of EUR against TL:</i>		
4- EUR net asset/liability	887	(887)
5- Amount hedged for EUR risk (-)		
6- EUR net effect (4+5)	887	(887)
<i>In case 10% appreciation of GBP against TL</i>		
7- GBP net asset/liability	289	(289)
8- Amount hedged for GBP risk (-)		
9- GBP net effect (7+8)	289	(289)
Total (3+6+9)	1,633	(1,633)
	Profit before tax Appreciation of foreign currency	Profit before tax Depreciation of foreign currency
31 December 2017		
<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)

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OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ**NOTES TO CONSOLIDATED YEARS ENDED FINANCIAL STATEMENTS AT 31 DECEMBER 2018 AND 2017**

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

NOTE 28 - NATURE AND LEVEL OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (Continued)**b) Interest position table and related sensitivity analysis****Interest rate risk**

As the 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 2018 and 2017, 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 2018	31 December 2017
Total financial liability	707,547	703,658
Less: Cash and cash equivalents (Note 4)	(173,017)	(228,958)
Net financial liability	534,530	474,700
Total equity	389,586	283,554
Financial debt/shareholders' equity factor	137%	167%

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO CONSOLIDATED YEARS ENDED FINANCIAL STATEMENTS AT 31 DECEMBER 2018 AND 2017

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

NOTE 29 - FINANCIAL INSTRUMENTS

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2. Disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1),
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2),
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

The following table presents the Group's assets that are measured at fair value at 31 December 2018 and 2017:

31 December 2018

Assets	Level 1	Level 2	Level 3	Total
Derivative financial instruments	-	297	-	297
	-	297	-	297

31 December 2017

Assets	Level 1	Level 2	Level 3	Total
Derivative financial instruments	-	1,325	-	1,325
	-	1,325	-	1,325

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.

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

NOTES TO CONSOLIDATED YEARS ENDED FINANCIAL STATEMENTS AT 31 DECEMBER 2018 AND 2017

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

NOTE 30 - SUBSEQUENT EVENTS

None.

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OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

INFORMATION DOCUMENT CONCERNING THE GENERAL ASSEMBLY TO CONVENE ON 18 MARCH 2019 TO REVIEW 2018

1. INVITATION TO THE ORDINARY GENERAL ASSEMBLY MEETING ON 18 MARCH 2019

The Ordinary General Assembly will convene to review the 2018 activities of the Company and to discuss the agenda detailed below on Monday, 18 March 2019 at 10.00 am at Divan İstanbul Hotel, No: 1 Elmadağ Şişli – İstanbul (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 2018 fiscal year will be made available for the shareholders to review at the Company's Headquarters and branch office, on the corporate website at www.otokar.com, and the 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, İstanbul), 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. **Due to our legal obligations, 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.**

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 Headquarters (Phone: 02164892950) 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 attend the Ordinary General Assembly Meeting.

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 on the 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 18 MARCH 2019 TO REVIEW 2018

2. ADDITIONAL DISCLOSURES IN ACCORDANCE WITH CMB REGULATIONS

The additional disclosures mandated by the Capital Markets Board's (CMB) "Corporate Governance Communiqué" II-17.1 regarding agenda topics are provided under 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
Other (Includes free floating shares)	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 at Otokar Otomotiv ve Savunma Sanayi A.Ş., no material changes have occurred in management and activities in 2018. No material 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 Department for inclusion of a topic in the agenda, rejected requests and reasons for rejections in the event that the Board of Directors did not accept such requests are provided below:

No such requests were received for the Ordinary General Assembly where the 2018 activities will be discussed.

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INFORMATION DOCUMENT CONCERNING THE GENERAL ASSEMBLY TO CONVENE ON 18 MARCH 2019 TO REVIEW 2018

3. REMARKS ON THE AGENDA TOPICS OF THE ORDINARY GENERAL ASSEMBLY ON 18 MARCH 2019

1. Opening and election of the Chairman who will preside over the meeting

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 2018 Annual Report prepared by the Company's Board of Directors

Information on the 2018 Annual Report that also contains the corporate governance principles compliance report, which was made available for shareholders to review at the Company's Headquarters, on the Electronic General Assembly portal of the Central Registry Agency and 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 2018 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 2018 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 Headquarters, on the Electronic General Assembly portal of the Central Registry Agency and the corporate website at www.otokar.com will be presented to the General Assembly.

4. Presentation for discussion and approval of the Financial Statements of the Company for the 2018 fiscal year

Information concerning the financial statements and statutory financial statements issued in accordance with Tax Procedure Law, which were made available for shareholders to review at the Company's Headquarters, on the Electronic General Assembly portal of the Central Registry Agency and 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. Approval of the membership changes on the Board of Directors during the year in accordance with article 363 of the Turkish Commercial Code

Pursuant to article 363 of TCC, the Board of Directors resolved on 22 October 2018 to appoint Selin Ayla Ünver as Board Member in place of Halil İbrahim Ünver, who was elected to the Board of Directors by the General Assembly on 15 March 2018 and passed away on 6 September 2018, until the end of the term of the deceased member, and Levent Çakıroğlu, who was elected to the Board of Directors by the General Assembly on 15 March 2018, to serve as Vice Chairman of the Board of Directors.

The résumé of Selin Ayla Ünver, appointed during the year, is prepared in accordance with CMB's Corporate Governance Principle 1.3.1, and provided in **ANNEX/1**.

6. Release of each member of the Board of Directors from liability for the affairs of the Company in 2018

Individual release of each member of the Board of Directors in respect of the activities, transactions and accounts in 2018 as per the provisions of the TCC and the Regulation will be presented to the approval of the General Assembly.

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

INFORMATION DOCUMENT CONCERNING THE GENERAL ASSEMBLY TO CONVENE ON 18 MARCH 2019 TO REVIEW 2018

7. Approval, approval with modifications, or disapproval of the Board of Directors' dividend proposal prepared in accordance with the Company's Profit Distribution Policy and pertaining to the date and issuance of profit distribution

According to the consolidated financial statements for the 01.01.2018-31.12.2018 accounting period, which are prepared in compliance with the Turkish Accounting Standards/Turkish Financial Reporting Standards and annexes and notes thereof pursuant to Capital Markets Board's (CMB) "Communiqué on the Principles Financial Reporting in Capital Markets", numbered II-14.1, and audited by PwC Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş., a net profit of TL 164,335,688 has been posted for the parent company. The dividend distribution proposal and relevant table, prepared by taking into account the Profit Distribution Policy, long-term corporate strategy, investments and financing policies, profitability and cash position of the company, in line with the Profit Distribution Communiqué II-19.1 and the Profit Distribution Guidelines announced in accordance with this Communiqué is provided in **ANNEX/2**.

8. Resolution on the number of the 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 the Independent Members of the Board of Directors

New members will be elected to take the place of the existing members of the Board of Directors whose office term has ended in accordance with the principles applicable to the election of the members of the Board of Directors as set out in the Company's articles of association pursuant to CMB regulations, the TCC and the relevant regulations. Furthermore, 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 stipulated by the provisions of the Turkish Commercial Code. The General Assembly may resolve to renew the Board of Directors even if its office term has not yet ended.

Three of the nominees for membership to the Board of Directors, which is proposed to consist of eight members, must meet the criteria of independency as defined in CMB's mandatory Corporate Governance Principles.

Upon the proposal of the Corporate Governance Committee, which has evaluated the candidates, Ahmet Nezih Olcay, Ali İhsan Kamanlı and Kenan Güven are nominated by the Board of Directors as Independent Members of the Board of Directors.

The résumés of the nominees for the Board of Directors and the declarations of independence of the independent members are provided in **ANNEX/1**.

9. Presentation to the shareholders and approval by the General Assembly, of the "Remuneration Policy" for the Members of the Board of Directors and the Senior Executives and the payments made thereof pursuant to the Corporate Governance Principles

Pursuant to CMB's mandatory Corporate Governance Principle 4.6.2, the principles applicable to 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 **ANNEX/3**. Benefits provided to Board of Directors and senior executives by Otokar Otomotiv ve Savunma Sanayi A.Ş. in 2017 are explained in note 27 of the financial statements for the 2018 fiscal year.

10. Resolution of the annual gross salaries to be paid to the Members of the Board of Directors

The amount of annual gross salaries to be paid to members of the board of directors during the 2019 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.

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

The Board of Directors, consulting with the Audit Committee, resolved on 11 February 2019 to appoint PwC Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş. to audit the company's financial statements for the 2019 accounting period and to

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

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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 General Assembly for approval.

12. Presentation to the shareholders, of the donations made by the Company in 2018, and resolution of an upper limit for donations to be made in 2019

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 2018 amounted to TL 628,949.50. This amount consisted of TL 300,000 TL to Vehbi Koç Foundation, TL 155,250 to Rahmi M. Koç Museum and Culture Foundation, TL 70,000 to Koç University, and the balance to various other organizations and institutions. The upper limit of the donations to be made in 2019 will be determined by the General Assembly.

13. 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 2018 pursuant to the Corporate Governance Communiqué of the Capital Markets Board

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 or Ünver Group companies, including those with similar activities with the Company. In 2018, no transaction that required disclosure pursuant to Corporate Governance Principle 1.3.6 has transpired.

14. Wishes and Opinions.

ANNEXES:

ANNEX/1	Resumes of the Candidates for the Board of Directors and Declarations of Independence by Independent Member Candidates (See Page 30-31)
ANNEX/2	Profit Distribution Policy, Board of Directors' Proposal for Distribution of 2018 Profits and Table of Profit Distribution Proposal (See Page 32-33)
ANNEX/3	Remuneration Policy for Members of the Board of Directors and Senior Executives (See Page Sayfa 34)

GLOSSARY

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

POA: Public Oversight Accounting and Auditing Standards Authority

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

MESS: Turkish Metal Industrialists Union

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

OSD: Automotive Manufacturers Association

TAS: Turkish Accounting Standards

TCC: Turkish Commercial Code

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

NOTES

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Otokar Otomotiv ve Savunma Sanayi A.Ş.

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