

**BOARD OF DIRECTORS REPORT
OF OTOKAR OTOMOTİV VE SAVUNMA SANAYİ A.Ş.
SUBMITTED TO THE 50TH ORDINARY GENERAL MEETING
HELD ON MARCH 27, 2013,
FOR THE PERIOD JANUARY 1, 2012 – DECEMBER 31, 2012**

BOARD OF DIRECTORS REPORT

Dear Shareholders,

The financial statements showing the activities of our Company in 2012, and the results of these activities, which have been issued in accordance with Generally Accepted Accounting Principles issued by the Capital Markets Board, are presented herein for the information of our shareholders and the public.

The names, office terms and authority limits of the members who undertook duty at the Boards of Directors and Auditors during the period, are as follows. [Determined at the Ordinary General Meeting of Shareholders dated March 14, 2012.]

BOARD OF DIRECTORS

Name/Last Name	Title	Term of Office	
		Beginning	Ending
Kudret ÖNEN	Chairman	March 14, 2012	March 27, 2013
Halil İbrahim ÜNVER	Vice Chairman	March 14, 2012	March 27, 2013
Osman Turgay DURAK	Member	March 14, 2012	March 27, 2013
Ali Tarık UZUN	Member	March 14, 2012	March 27, 2013
Ahmet Serdar GÖRGÜÇ	Member	March 14, 2012	March 27, 2013
Tuğrul KUDATGOBİLİK	Member	March 14, 2012	March 27, 2013
İsmet BÖCÜGÖZ	Independent Member	March 14, 2012	March 27, 2013
Abdülkadir ÖNCÜL	Independent Member	March 14, 2012	March 27, 2013

Authority limits of the Chairman and Board Members have been determined in accordance with Article 12 of the Company's Articles of Association, and the provisions of the Turkish Commercial Code.

BOARD OF AUDITORS

Name/Last Name	Title	Term of Office	
		Beginning	Ending
Mehmet APAK	Auditor	March 15, 2011	March 14, 2012
Mustafa Metin UTKAN	Auditor	March 15, 2011	March 14, 2012

Authority limits of the Auditors have been determined in accordance with Article 16 of the Company's Articles of Association, and the provisions of the Turkish Commercial Code.

CAPITAL STRUCTURE AND OWNERSHIP STRUCTURE

As of December 31, 2012, the registered capital of our Company is TL 25 million, and the issued capital is TL 24 million.

Shareholders who own more than 10% of the capital, the amount of shares they hold, and the percentage of these shares in the capital are as follows:

Shareholder	Amount of Shares (TL)	Percentage %
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 remaining shares at par value of TL 7,322,306 representing 30.51% of our Company's capital are held by approximately 4,900 shareholders according to the most recent data received from the Central Registry Agency Inc.

Amendments made to the Articles of Association

At the Ordinary General Meeting held on March 14, 2012, the following amendments were made to the Articles of Association:

- "Article 5: Headquarters and Branches", the official address of the headquarters was amended due to the renumbering of doors by the municipality,
- "Article 10: Board of Directors"; "Article 14: Provisions regarding the Board of Directors", "Article 17: General Meetings", "Article 32: Compliance with Corporate Governance Principles" were amended in order to comply with Corporate Governance Principles.

Dividends Distributed in the Last Three Years and their Percentages:

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

Period	%
2009	85.00
2010	62.50
2011	200.00

Whole of the dividend pertaining to the accounting period 2012 was paid to our shareholders in cash, starting from March 21, 2012.

Our shareholders can access corporate and financial data of our Company at www.otokar.com.tr, under the section "Investor Relations".

AUTOMOTIVE INDUSTRY AND OTOKAR

Otokar operates in the light commercial vehicles segment of the automotive industry. Otokar's product range consists of minibuses, medium size buses and buses, which target the commercial market and are used in public transportation and personnel transportation, as well as of 4x4 tactical vehicles and wheeled armoured vehicles, which are used in defense industry services. Additionally, the Company manufactures trailers and semi-trailers under the brand name Otokar-Fruehauf for the transportation and logistics industries.

On July 29, 2008, Otokar signed an agreement with the Undersecretariat for Defense Industries for carrying out Phase I: Design and Prototype Development of Turkey's first Main Battle Tank, as part of the project of "Manufacturing a National Main Battle Tank" (namely, Project Altay). Having finalized the concept design in 2010, Otokar is currently working on the detailed design stage. Full-scale model of the tank ALTAY was exhibited to the public at IDEF 2011 in May. Additionally, Otokar opened Turkey's first and only tank test center on March 29, 2012. And on November 15, 2012, a prototype of the Altay tank was tested and displayed at a special ceremony which was attended by the Prime Minister.

THE MARKET-SALES-PRODUCTION

The developments observed in the sector during 2012 can be summarized as follows, based on the data obtained from OSD (Automotive Manufacturers Association).

- Total production of motor vehicles dropped by 10% to 1,072,908 units during the period of January-December 2012, compared to the same period of 2011. Similarly, automobile production also dropped by 10% to 577,296 units. In 2012, the motor vehicles market contracted by 10%, compared to the previous year.
- The developments in the Light Commercial Vehicles Segment, in which our Company operates, are as follows:
 Manufacturing of minibuses increased by 31%,
 Manufacturing of midi-buses increased by 18%,
 Manufacturing of pickups decreased by 11%.
- In the heavy commercial vehicles segment,
 Manufacturing of buses, large size trucks, and small size trucks decreased by 7%, 20%, and 40%, respectively.

When compared to 2011, total sales of imported light commercial vehicles dropped by 22%, and sales of locally manufactured light commercial vehicles dropped by 23% in 2012. The market share of imported vehicles stood at 43% in 2012.

PRODUCTION AND SALES

Our Company's production and sales figures per product types are presented below, and in comparison with the figures of the previous year:

	2012		2011		Change (Units)		Change [%]	
	Production	Sales	Production	Sales	Production	Sales	Production	Sales
Minibus	52	56	168	152	[116]	[96]	[69]	[63]
Small size bus	1.812	1.877	1.492	1.383	320	494	21	36
Bus	616	637	727	607	[111]	30	[15]	5
4x4 Tactical Vehicles	23	31	147	205	[124]	[174]	[84]	[85]
Armoured tactical vehicles	346	347	528	546	[182]	[199]	[34]	[36]
Trailers	1.191	1.190	2.614	2.616	[1.423]	[1.426]	[54]	[55]
Total	4.040	4.138	5.676	5.509	[1.636]	[1.371]	[29]	[25]

According to our non-consolidated financial reports issued in accordance with the International Financial Reporting Standards (UMS/UFRS), and in the format determined by the Capital Markets Board, and as pursuant to CMB's "Communiqué on the Principles of Financial Reporting in Capital Markets", Serial XI, No. 29 of the, our Company's turnover increased by 13% over the previous year. Distribution of our turnover in terms of domestic and international sales, and in comparison with the previous year, is as follows:

	2012 (TL)	2011 (TL)	Change %
Domestic sales	744,330,923	726,345,773	3
International sales	260,161,309	164,179,416	59
Total	1,004,492,232	890,525,189	13

Our total international sales totaled US\$ 145,785,646 in 2012 (2011: US\$ 96,439,329), and its share in total turnover was 26% (2011: 18%).

Our total capacity utilization in 2012 was 37% (2011: 52%).

Otokar owes its growth to its proprietary products, of which the design and intellectual rights belong to the Company, and which are developed by the Company's own engineering, research, and development resources. Otokar has adopted a strategy to grow in the defense industry, to increase the share of its exports in total turnover, and to expand its portfolio with new models. The Company has been successfully attaining these targets.

INVESTMENTS

In 2012 Otokar continued its investments in "Otokar R&D Center", which has been initiated in the previous years, by taking a crucial decision in the area of research and development with a view to achieving its rapid growth target with vehicles of which intellectual rights are owned by Otokar.

In 2012 total investments amounted to approximately US\$ 16 million.

ADMINISTRATIVE ACTIVITIES

Names and positions of the executive managers of our Company in 2012 are as follows:

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

Our Company's total number of employees as of December 31, 2012 was 2,281 (2011: 1,519). Of these employees, 595 (2011: 535) are administrative and office personnel, and 984 (2011 : 984) are workers. No disputes or labor actions have occurred during the period.

Our Company is subject to the Collective Labor Agreement signed between Turkish Metal Workers Union and MESS (Turkish Employers' Association of Metal Industries) on November 13, 2010, and to be effective as of September 1, 2010. The last agreement terminated on August 31, 2012, and the new agreement is awaited to take effect.

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

Our Company's Corporate Governance Rating, which was 84.68 (8.47) in 2011, was increased to 86.80 (8.68) in 2012.

FINANCIAL RESULTS

Our Company presents to the General Meeting and the public its non-consolidated financial reports regarding its activities in 2012, and prepared in accordance with International Financial Reporting Standards (UMS/UFRS), and in the format determined by the Capital Markets Board as pursuant to CMB's "Communiqué on the Principles of Financial Reporting in Capital Markets", Serial XI, No. 29.

The financial statements, footnotes and ratios showing the results of our activities in 2012 are also submitted for your information.

Our Company's turnover in 2012 amounted to TL 1,004,492,232, and gross sales profit stood at TL 222,028,306.

According to the financial statements prepared in accordance with International Financial Reporting Standards, and as pursuant to CMB's regulations, our Company set aside a depreciation provision of TL 30,258,066, and a severance pay and guarantee provision of TL 3,672,147 in 2012, closing the year with a pre-tax profit of TL 81,817,941, and an after-tax profit of TL 76,384,978.

Our Company will pay TL 3,876,947 in taxes for the year 2012, and its total tax expense, which includes deferred tax expenses and amounts to TL 5,432,963, is shown on the financial statements. Our Company's net profit after tax stands at TL 76,384,978.

In 2012 our company made tax-deductible donations and aids, amounting to TL 1,850,476, to foundations and associations for charitable purposes.

In determining profit distribution, our Company takes into account its long term strategy, capital requirements, investments and financing policies, and profitability and cash position.

We submit to your approval the payment of gross=net cash dividend at the rate of 266.67% and in the amount of TL 2.66667 per share at par value of TL 1.00, to shareholders in unlimited taxpayer status and to shareholders in limited taxpayer status, who earn profit share through a business unit or a permanent representative in Turkey;

the payment of net cash dividend at the rate of 226.67 %, and in the amount of TL 2.26667 per share at par value of TL 1.00, to other shareholders, as per the Profit Distribution Proposal attached herein;

and that the beginning date of payment of the dividends amounting to TL 64,000,000 to be April 3, 2013, Wednesday.

We have presented to you the summary of the activities and the results obtained in 2012.

Dear Shareholders,

Our Board of Directors completed its office term today. The new members of the Board of Directors will be elected at this meeting. We are grateful for your trust, courtesy, and assistance throughout our office term.

Istanbul, March 5, 2013



Kudret ÖNEN

Chairman of the Board of Directors