

# 2016

Annual Report

EXPERIENCED - SOLID - INNOVATIVE



## Otokar

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# INTRODUCTION

## *EXPERIENCED, SOLID, INNOVATIVE*

Having reached these days by garnering over half a century of experience, Otokar is one of the leading companies in Turkey's automotive and defence industry. A source of pride for Turkey, Otokar products emerge in over 60 countries on five continents. It continues to grow in the world and Turkey. It pioneers technological innovations and shapes the future.

This power stems from; its experience, firm partnership & capital structure, and its uninterrupted innovative perspectives and business conduct over the years.

# Otokar

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



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

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

1. We have audited the annual report of Otokar Otomotiv ve Savunma Sanayi A.Ş. (the "Company") for the year ended 31 December 2016.

### *Board of Directors' responsibility for the Annual Report*

2. The Company's management is responsible for the fair preparation of the annual report and its consistency with the consolidated financial statements in accordance with Article 514 of Turkish Commercial Code ("TCC") No. 6102 and Capital Markets Board's ("CMB") Communiqué Serial II, No:14.1, "Principles of Financial Reporting in Capital Markets" (the "Communiqué") and for such internal control as management determines is necessary to enable the preparation of the annual report.

### *Independent Auditor's Responsibility*

3. Our responsibility is to express an opinion on the Company's annual report based on the independent audit conducted pursuant to Article 397 of TCC and the Communiqué, whether or not the financial information included in this annual report is consistent with the Company's consolidated financial statements that are subject to independent auditor's report dated 9 February 2017 and presented fairly.

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

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

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

### *Opinion*

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

### **Other Responsibilities Arising From Regulatory Requirements**

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

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

Beste Gücüm, SMMM  
Partner

İstanbul, 1 March 2017

# CHAIRMAN'S STATEMENT



## Esteemed shareholders, business partners, and employees,

We have left behind a year of challenges as both our country and the world at large saw developments that had significant impact on the economy, politics and foreign affairs. Despite the many risks that the current conjunctures impose, we maintain a positive outlook about our expectations from 2017.

Despite the tightening observed in the markets where we operate, we at Otokar have delivered a successful performance, increasing our turnover 14% year on year to TL 1.6 billion. With a total exports figure of \$ 145 million accounting for 27% of the total turnover, we ended the year with TL 410 million in gross profit, and TL 69.7 million in net profit. Our products, which we produce to meet the needs and expectations of our clients at the core of our focus, our R&D and engineering capabilities, our experienced and skilled human resource, and our strong sales network became the factors that brought us successful financial results in 2016.

The commercial vehicles industry as one of Otokar's key fields of operation was among the sectors that were most affected by the developments in the world and in our country in 2016. According to the Automotive Manufacturers Association data, the bus market that Otokar serves experienced a tightening of up to 33% in 2016. In the same period, while the Turkish trailer market

shrank by 27%, the light truck segment, another field of Otokar's, tightened further by more than 45%. Meanwhile the recovery observed in the European bus market led to a 14% increase in the exports of the Turkish bus industry.

Despite the tightening of the market, Otokar maintained its leading position in the Turkish market in the overall bus segments in which it operates. With buses sold to more than 40 countries, and exports growing 18%, Otokar further strengthened its presence in overseas markets in 2016.

### We Started Exporting Technology

As the stagnation in the domestic market highlights the importance of exports, we see that exporting products alone is not enough. With our developing innovation and technology capabilities as a country, we need to reinforce our standing in global markets. Acting on these facts, Otokar has been allocating 4% of its revenues to research and development for the last decade, and has started to stand out in global scale not just for its export products with fully-owned intellectual property rights, but also with its know-how, engineering, R&D and technology transfer capabilities. The products that Otokar engineers design and develop, and our capabilities continue to bring in new international successes by the day. The agreement we have signed with OGHAB, a company with 55 years of

**14%**  
**INCREASE**  
**IN TURNOVER**

**69.7**  
**MILLION TL**  
**NET PROFIT**



experience in bus production of Iran, in 2016 to build the Navigo buses abroad through technology transfer has confirmed our claim in this area. As we begin to see the positive results of this initiative in 2017, we will also aim to sustain our expansion in the European bus market. In terms of the domestic market, 2017 will be a year when our goal will be to maintain our leadership in Turkish bus industry, and increase our market share in the other commercial vehicle segments.

I am proud to inform that we have continued to take important steps in technology exports in the defence industry in early 2017. Al Jasoor, the joint venture with a local partner, has signed a contract for \$661 million with the United Arab Emirates Armed Forces for the 8x8 armoured vehicles. The deal, which includes product, technology transfer, consultancy and production in the United Arab Emirates, also became the biggest contract signed by the Turkish defence industry for a single item. In 2017, we aim to complete the necessary preparations in the United Arab Emirates for the contract through Al Jasoor. We will meet the demand of the United Arab Emirates for 8x8 armoured vehicles, which will reach 700 units when completed.

In the coming periods, we are aiming at opening to new markets, especially in the Gulf Region, one of the key markets for the defence industry, and strengthening our existing markets. We anticipate that "Otokar Land Systems Limited", a company we established in Abu Dhabi in 2016 to serve these purposes, will have a positive impact on our exports to the region.

## **Turkish Defence Industry Will Gain Momentum with the Altay Project**

Otokar has long been serving the defence industry, making investments, and achieving great success in domestic and international endeavours. We strive to supply the most suitable products and provide the best service to the Turkish Armed Forces as well as nearly 50 clients on five continents. As the only national armoured vehicles manufacturer of Turkey, we continue to carry out our activities as planned for the Altay Main Battle Tank Project, the biggest land systems project of our country. The 'Acceptance Tests' carried out by the Undersecretariat of Defence Industry and the Land Forces Command for Altay, designed and developed by Otokar as the prime contractor, are now in their final stage. Equipped with all the competencies required to successfully carry out the serial production of the Altay main battle tank, which is of strategic importance for our country, Otokar submitted its best and final offer for serial production in August 2016. As the only land defence systems manufacturer with the "Production Permit Certificate" required for serial production of the main battle tank, Otokar has prepared the necessary production schedule and infrastructure to launch serial production in the shortest time possible.

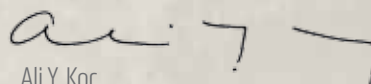
I believe that if we are tasked with the serial production of Altay, we will go beyond satisfying the needs of our country in the best possible way, and take an important step forward in exports as well. The interest of friendly and allied nations in the prototype of the national main battle tank Altay indicates that this project will also contribute positively to Turkey's defence industry exports in the long run.

## **Esteemed shareholders,**

As it continues to grow steadily, Otokar manages all its processes with the concepts of accountability, transparency and responsibility, and strives to leave a better world for future generations. Having been included in the BIST Sustainability Index in 2015, Otokar, as a key stakeholder of the sustainability program, has engaged in a number of activities to develop environmentally friendly products and manufacturing processes. Within the scope of the Koç Group's "I Support Gender Equality for my Country" project, Otokar carried out awareness raising activities to promote gender equality in the public transportation sector, and particularly toward increasing female employment in the industry, with the support of leading organizations, federations and associations. We at Otokar also rewarded institutions that increased their female employment and worked for social equality. Our goal for 2017 is to move forward with projects on sustainability issues, and carry out innovation and transformation activities; and following the "For My Country" philosophy of our founder Vehbi Koç, we aim to create more value for our country, our employees and all of our stakeholders.

I would like to extend my gratitude to all of our employees, dealers, labour union, supply industry, business partners, and to our shareholders for their support and invaluable contributions to Otokar's achievements.

Sincerely,



Ali Y. Koç  
Chairman

# ABOUT OTOKAR

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

Today, as Turkey's one of the leading manufacturer of commercial vehicles and defence industry products, Otokar produces buses, light trucks and semi-trailers in the commercial vehicles segment, and a variety of tactical wheeled and tracked armoured vehicles and turret systems for the defence industry. Otokar is the prime contractor of Altay, the main battle tank. Otokar, as **the largest private capital company** in the defence industry, maintains its strong position in the sector. A part of the Koç Group, the company operates at the Arifiye (Sakarya) plant with a workforce of 2,297 employees, offering its clients solutions that can be customized to their needs with its technologies, designs and applications.

Otokar has maintained its title as **the best selling bus brand** in Turkey, while continuing to expand its wide product offering with buses ranging from 7 metres to 18.75 metres for passenger transportation. After launching Turkey's first hybrid bus and electric bus, Otokar continues to work on alternative-fuelled buses.

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

Otokar stands apart with its expertise in the design, development and system integration of all kinds of vehicles and platforms in the field of land vehicles for the defence industry.

## The bus market leader in Turkey

in the sum of the segments that it operates.



## CERTIFICATIONS AND MANAGEMENT SYSTEMS

Otokar follows and adheres to the following standards, directives and methodologies:

- ISO 9001 Quality Management System
- ISO 27001 Information Security Management System
- AQAP 2110 Quality Assurance Certificate
- Turkish MoD Production and Facility Permits
- Facility Security Certificate with National and NATO Security Clearance
- ISO 10002 Customer Satisfaction Management System
- ISO 3834-2 Welding Quality Certification (for ADR-certified tanker production)
- TS 12681 Authorized Technical Services Compliance Certification
- TS 12047 Authorized Technical Services Compliance Certification
- EMI/EMC Testing Centre TS EN ISO/IEC 17025:2012 (TURKAK accreditation)
- 6 Sigma DMAIC
- OHSAS 18001 Occupational Health and Safety Certification
- ISO 17025:2005 Competence of Laboratories (Ballistic & EMC)



## 60+ COUNTRIES WHERE PRODUCTS ARE SOLD

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



## 2,297 EMPLOYEES

With its **1,601 field staff and 696 office staff** employees, Otokar has an experienced and qualified workforce able to use state-of-the-art technology, aware of the value and importance of serving the customers, and open to continuous learning and progress.

Otokar, is the leader and largest private capital company in the defence industry in Turkey.



The company manufactures tactical wheeled and tracked armoured vehicles and turret systems with its own intellectual property rights, and exports defence industry products to over 30 countries. The main battle tank "Altay", which Otokar as prime contractor has designed and developed, is a project where national capabilities and resources have been utilized to meet the requirements of the Turkish Armed Forces. Thanks to "Altay", design, prototyping and qualification project, Turkey has not only created a main battle tank and obtained intellectual property rights, but also gained the infrastructure to design and manufacture the most complicated land systems vehicle.

Otokar's wide product range are sold in 5 continents in over 60 countries including Turkey.

Otokar has made its mark with numerous firsts since its founding, and the company also stands apart with the R&D activities carried out in international standards. Otokar allocated approximately **4.1%** of its revenues to R&D expenditures in the last decade.

## VISION

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

## MISSION

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



# 552,000m<sup>2</sup>

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

# OVERVIEW

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



## OWNERSHIP STRUCTURE



- **45%** Koç Holding A.Ş.
- **25%** Ünver Holding A.Ş.
- **30%** Other

## Areas of Operation

### Commercial Vehicles

**Passenger Transportation**  
Buses

**Cargo Transportation**  
Trailers, Semi-trailers  
Light Trucks

### Defence Industry

**Land Systems**  
Tactical Wheeled and Armoured Vehicles  
Tracked Armoured Vehicles  
Turret Systems



#### Global

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



#### The Largest

Turkey's largest private company in the defence industry



#### Pioneer

Leading supplier of land defence systems to Turkish Armed Forces



#### Market Leader

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



**2,297**

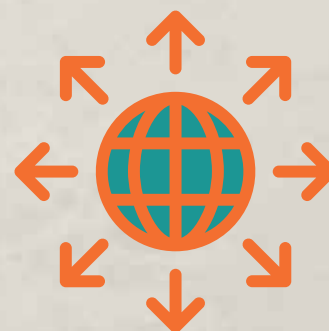
EMPLOYEES

1,601 Field Staff 696 Office Staff



**552,000** m<sup>2</sup>

FACTORY AREA



approx. **300**

SALES & SERVICE NETWORK



**5,000**

Buses + Minibuses

**3,700**

Tactical Vehicles

**1,600**

Trucks + Light Trucks

**1,850**

Trailers + Semi-trailers

**900**

Tactical Armoured Vehicles

**145**

\$, million

EXPORT  
REVENUES

**1.6**

TL, billion

2016  
TURNOVER

**388**

TL, million

10-YEAR R&D  
EXPENDITURE

**2 OUT OF EVERY 5 BUSES**  
Sold in Turkey in 2016  
**IS OTOKAR**

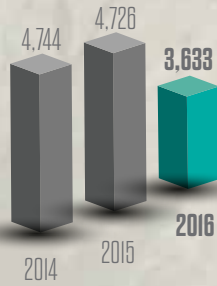




# SUMMARY FINANCIAL INFORMATION

## Sales Quantities

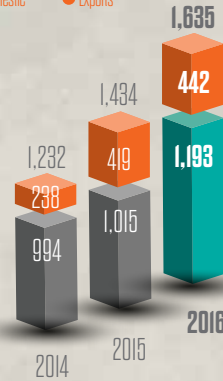
unit



## Sales Revenues

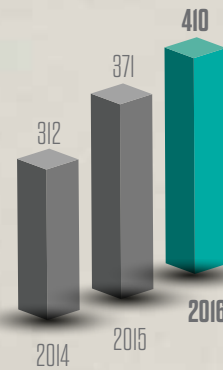
TL, million

● Domestic ● Exports



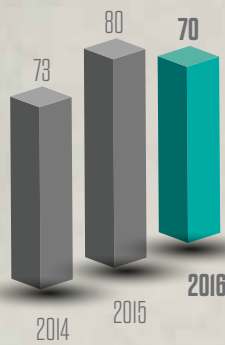
## Gross Profit

TL, million



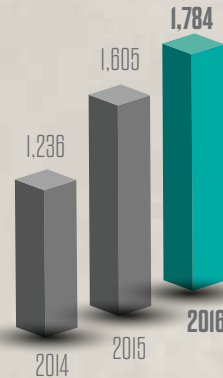
## Net Profit

TL, million



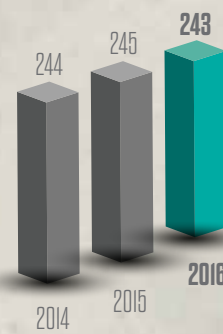
## Total Assets

TL, million



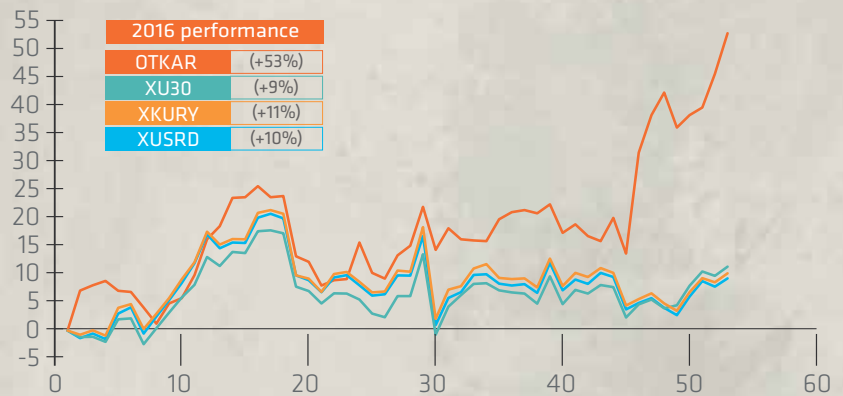
## Shareholders' Equity

TL, million



## Stock Performance

Otokar is listed on Borsa Istanbul and traded with ticker symbol "OTKAR" while the company stocks are also included in the **BIST30**, Corporate Governance and Sustainability indexes. Stocks have seen lowest **TL 86.88** and highest **TL 133.40** in 2016, returning nominal **53%**. The stocks have performed better compared to the indexes and returned higher revenue.



## Main Ratios [%]

	2016	2015
Gross Profit Margin	25	26
Operating Margin	11	10
EBITDA Margin	13	13
Pre-Tax Profit Margin	4	6
Net Margin	4	6

## Financial Ratios

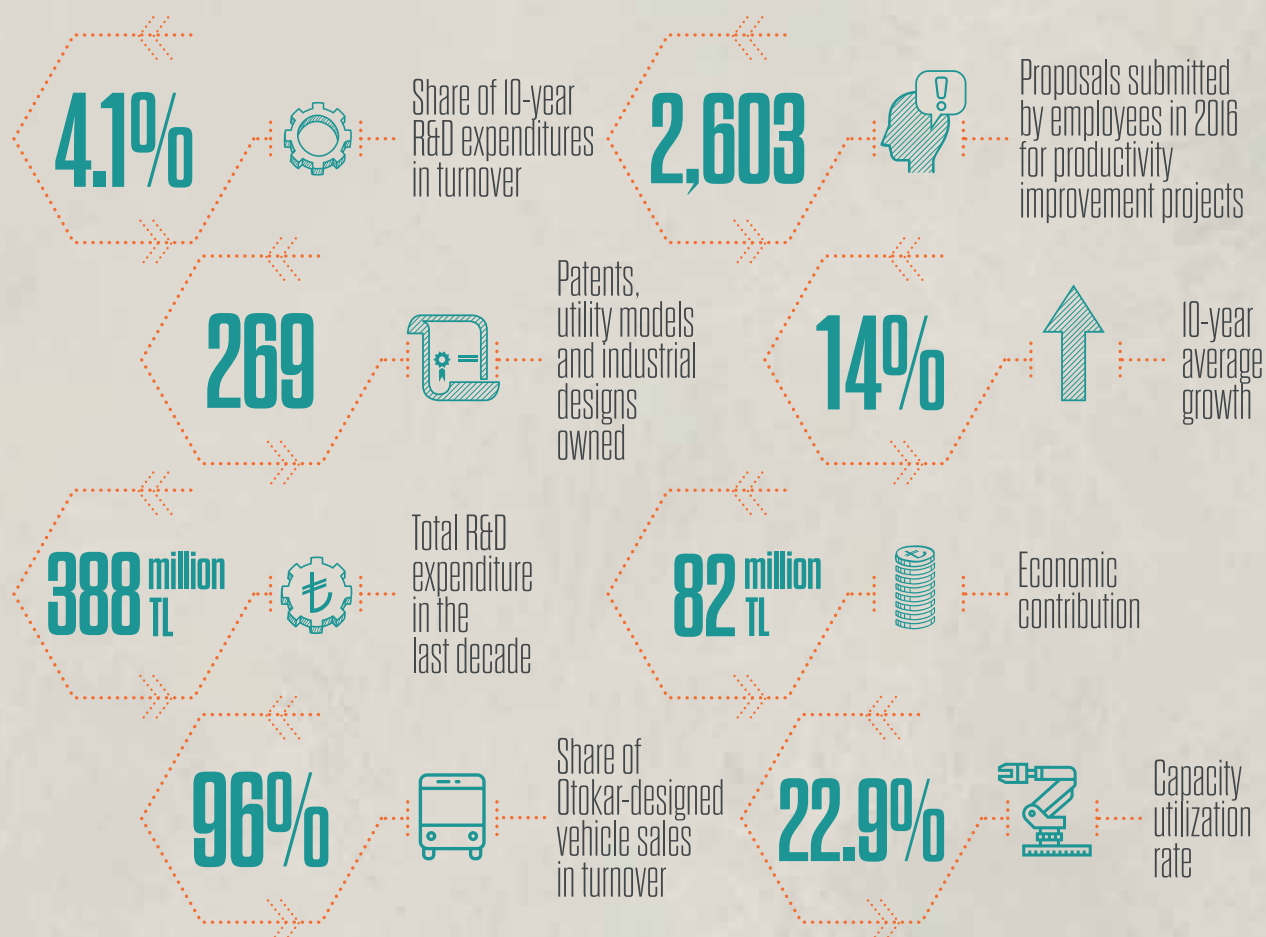
Liquidity Ratios	2016	2015
Current Ratio (Current Assets/Short Term Liabilities)	1,36	1,30
Liquidity Ratio (Current Assets-Inventories/Short Term Liabilities)	0,90	0,75

Financial Leverage Ratios	2016	2015
Total Debt to Total Assets Ratio (Short Term Debt + Long Term Debt/Total Assets)	0,86	0,85
Equity/Total Debt Equity (Short Term Debt + Long Term Debt)	0,16	0,18

Profitability Ratios	2016	2015
Sales Profitability Ratio (Pre-Tax Profit/Net Sales)	0,04	0,06
Return on Assets (Pre-Tax Profit/Total Assets)	0,04	0,05
Return on Equity (Net Profit/Shareholders' Equity)	0,29	0,32



## R&D Indicators



# COMPETITIVE ADVANTAGES

PRODUCTS WITH  
OTOKAR OWNED  
INTELLECTUAL  
PROPERTY  
RIGHTS

Independence  
to develop  
products to  
meet market  
requirements,  
potential for  
technology  
exports

PUBLICLY  
TRADED

Transparent  
structure,  
reliability

OPERATING  
IN NICHE  
MARKETS

Sustainable  
growth



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

Rapid product  
development  
and launch

**CAPABILITY  
TO OFFER  
CUSTOMIZED  
FEATURES**

Customer  
satisfaction  
guarantee

**NO  
FOREIGN  
PARTNERS**

Advantage in  
national  
projects

# AREAS OF OPERATION

## COMMERCIAL VEHICLES



### DESCRIPTION

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

**WIDEST  
PRODUCT  
RANGE**

**LEADING AND  
PIONEER  
MANUFACTURER**

**EXPORTS TO  
40<sup>+</sup>  
COUNTRIES**



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

**VARIOUS  
APPLICATIONS**

**PIONEER  
TRAILER  
APPLICATIONS**

**LEADER  
REFRIGERATED  
TRAILER  
BRAND**

## DEFENCE VEHICLES



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

**UP TO  
30 THOUSAND  
PRODUCTS IN  
5 CONTINENTS**

**PIONEER AND  
LEADING  
LAND SYSTEMS  
MANUFACTURER**

**EXPORTS TO  
30<sup>+</sup>  
COUNTRIES**



## PRODUCTS

### BUSES

**Poyraz**

**Tempo**

**Sultan / Navigo** (Sultan S, Sultan Comfort, Sultan Maxi, Sultan Mega, Sultan City, Easy-Access Sultan Maxi, Navigo C, Navigo U, Navigo T)

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

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

**Kent Articulated**

**Territo**

## MARKET POSITION AND DEVELOPMENTS IN 2016

- Otokar retained its leadership in the Turkish market based on the sum of segments where it operates.
- Under the Comosef project, Otokar developed a “Smart bus”.
- Otokar won the sole articulated bus tender in Turkey in 2016.
- Otokar started exporting technology and licenses of Navigo buses to Iran.
- Otokar sold vehicles in Lithuanian, Dutch and Jordanian markets for the first time.
- The 20,000<sup>th</sup> Navigo bus is produced.
- Kent CNG buses started to serve on the roads.
- Otokar introduced Euro 6, AEBS, LDWS environment and safety practices in the vehicles under the new regulations in the Turkish market.

### TRAILERS, SEMI-TRAILERS

**Otokar-Fruehauf Curtainsider Semi-Trailer**

(Tirliner, Speedslider, Mega Speedslider, Euroslider, HuckePack Semi-Trailer)

**Otokar-Fruehauf Refrigerated Semi-Trailer**

(Iceliner, Iceliner Premium, Iceliner HuckePack Semi-Trailer)

**Otokar-Fruehauf ADR-Certified Tanker Semi-Trailer and On-Truck Applications**

(Cylindrical, Elliptical, Maxi Section Tanker)

**Ecotır, Ecoliner, Plato, Duet, Kontena, Spira**

- Otokar became Turkey's leading refrigerated semi-trailer brand.
- Otokar R&D Test Center Climatic Chamber with Dynamometer was selected as the first and only approved test station in Turkey for ATP-type approval tests of vehicle superstructures.
- Otokar Iceliner Huckepack became the first refrigerated trailer to have been produced and certified in Turkey conforming to train loads in Code XL load safety standards.

### LIGHT TRUCKS

**Atlas Long Wheelbase, Atlas Short Wheelbase**

### TACTICAL WHEELED VEHICLES

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

**6x6 Tactical Wheeled Armoured Vehicle** (Arma 6x6)

**8x8 Tactical Wheeled Armoured Vehicle** (Arma 8x8)

- Otokar presented the serial production proposal for Altay, the main battle tank, to Turkish Undersecretariat of Defence Industry.
- “Otokar Land Systems Limited” was established in the UAE.
- Cobra II vehicles entered the Turkish Armed Forces' inventory; Otokar received the first export order for Cobra II.
- Otokar completed the deliveries of the armoured vehicles ordered by domestic and foreign markets.
- The Otokar test laboratories qualified to receive an internationally recognized accreditation certificate for ballistic and mine tests.

### TRACKED ARMoured VEHICLES

**Light Tracked Armoured Vehicle** (Tulpar, Tulpar S)

**Main Battle Tank** (Altay)

### TURRET SYSTEMS

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



# MILESTONES

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

**1963**

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

**1964**

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

**1967**

Production and export of first small buses.

**1968**

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



**1980**

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

**1984**

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

**1987**

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

**1980s**

**1970s**

**1970**

Production of first minibuses designed for mass transport.

**1976**

Joined the Koç Group.



## 1990s

**1990**

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

**1995**

Otokar IPO.

**1997**

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

**1999**

Otokar Pazarlama A.Ş. acquired.



## 2000s

**2002**

Merged with İstanbul Fruehauf A.Ş.

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

**2003**

Production of Turkey's first ADR- certified tanker.

**2004**

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

**2005**

Armoured internal security vehicle added to product range.

Design and production of Otokar branded semi-trailer.

**2007**

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

**2008**

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

Total factory area expanded to 552,000 square metres.

**2009**

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

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

## 2010s

## 2010

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

"Arma 6x6", a multi-wheeled armoured vehicle, added to the product range, and received two export orders in the first year.

Became the best selling bus brand in Turkey.

## 2011

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

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

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

Otokar subsidiary, Otokar Europe founded in France.

## 2015

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

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

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

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

## 2012

Otokar Tank Test Centre opened.

Turkey's first electric bus launched.

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

Production of preliminary prototypes of the national tank Altay.

## 2013

Production of light commercial trucks commenced.

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

## 2014

ISO 10002 certification for customer satisfaction. 15 thousandth "Navigo" came off production line.

R&D Centre named the "Most Successful R&D Centre" in automotive industry. Otokar Electromagnetic Compatibility Test Centre accredited.

## 2016

Otokar presented its proposal for the serial production of 250 units of the main battle tank Altay to the Undersecretariat of Defence Industry.

Otokar established "**OTOKAR LAND SYSTEMS LIMITED**" in the United Arab Emirates.

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

Otokar developed the Smart Bus in cooperation with İSBAK and KoçSistem under the **CoMoSeF** Project.

Having won the tender for the purchase of 100 buses of ESHOT affiliated to İzmir Metropolitan Municipality, Otokar delivered all the buses.

Otokar R&D Test Center Air Conditioned Chamber was selected as **the first and only approved** test station in Turkey for ATP-type approval tests of vehicle superstructures.

Turkey bus market leader in total of segments it operates; Turkey's **most** preferred refrigerated trailer brand.

Otokar started to export the technology and licenses of Navigo buses.



# HIGHLIGHTS of 2016



## BUS LEADERSHIP

Turkey's most preferred bus brand in total of all the operation segments.

## TECHNOLOGY EXPORT

Turkey's first technology and license export agreement in small bus segment was signed for Navigo.



## IZMIR'S ARTICULATED BUSES

Otokar won the İzmir Metropolitan Municipality's articulated bus tender for 100 units, as the sole articulated tender in Turkey within 2016.

## TECHNOLOGY INVESTMENT

Otokar has developed its ability to give a quick and quality response to domestic and foreign demand by investing in the latest technology in the face of increased demand for armoured vehicles.



## ATP CERTIFICATION

Otokar Climatic Test Chamber with Dynamometer was selected as the first and only approved test station in Turkey for ATP-type approval tests of vehicle superstructures.



### SMART BUS

Otokar developed the Smart Bus in cooperation with İSBAK and KoçSistem under the CoMoSeF Project.

### GOLDEN GLOVE

Otokar was deemed worthy of the Golden Glove for the second time at the Golden Glove and Golden Suggestion Occupational Health and Safety Competition organized by Turkish Employers' Association of Metal Industries (MESS).



### LEADERSHIP IN TRAILER

Otokar became Turkey's leading refrigerated semi-trailer brand.

### 20.000<sup>th</sup> NAVIGO

Otokar has reached 20,000<sup>th</sup> unit of Navigo buses, the production of which Otokar started in 2002.



### GREENER WORLD

Otokar introduced Euro 6, AEBS, LDWS practices in the vehicles under the new regulations in the Turkish market.





### ALTAY TANK

Proposal for the serial production and integrated logistics support activities for Altay, Turkey's main battle tank, were presented to the Undersecretariat of Defence Industry.

### COBRA II

Cobra II vehicles entered the Turkish Armed Forces' inventory; Otokar received the first export order for Cobra II.



### NEW VEHICLES

TULPAR S Tracked Armoured Personnel Carrier and Iceliner Huckepack Semi-trailer were added to the product range.

### ACCREDITATION

The Otokar test laboratories qualified to receive an internationally recognized accreditation certificate for ballistic and mine tests.



### KENT CNG IN GAZIANTEP

In 2016, Gaziantep Municipality became the first institution to use Kent CNG, which reduces environmental pollution by using natural gas in urban public transportation.



# BOARD OF DIRECTORS



**Yıldırım Ali Koç**  
Chairman

Ali Y. Koç (born 1967, Istanbul) graduated from Rice University (USA) with a Bachelor's degree in Business Administration, and earned his MBA degree at Harvard Business School (USA). He participated in the Management Trainee Program of American Express Bank (1990–1991), and later worked as an Analyst at Morgan Stanley Investment Bank (1992–1994). He went on to hold various senior positions at Koç Holding such as Business Development Coordinator and President of the Information Technology Group (1997–2006). He was the President of the Corporate Communications and Information Technology Group (2006–2010), and sat as a member on the Board of Directors of Koç Holding (2008 – 2016). Since February 22, 2016 he is serving as the Vice Chairman of the Board of Directors of Koç Holding.

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



**Halil İbrahim Ünver**  
Deputy Chairman

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

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



**Osman Turgay Durak**  
Board Member

Osman Turgay Durak (born 1952, Istanbul) received his undergraduate and graduate degrees from Northwestern University, Department of Mechanical Engineering (USA).

He joined Koç Group in 1976, starting as a Product Development Engineer at Ford Otomotiv. He served as Assistant General Manager in 1986, Chief Deputy General Manager in 2000, and General Manager at Ford Otosan in 2002. Between 2007 and 2009, Mr. Durak was the President of the Automotive Group at Koç Holding. From May 2009, he served as Deputy Chief Executive at Koç Holding, and was appointed CEO and Board Member of Koç Holding in April 2010, till April, 2015. Mr. Durak was the Chairman of the Automotive Manufacturers Association between 2004 and 2010.

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



**Levent Çakıroğlu**  
Board Member

Levent Çakıroğlu (born 1967, Ankara) received his Bachelor's degree in Business Administration from Ankara University's School of Political Sciences and his Master's degree from Illinois University. He began his career in 1988 as a Junior Accountant at the Ministry of Finance, and later worked as Accountant (1991-1997). After teaching at Bilkent University as Part-time Lecturer (1997-1998), he was appointed as Vice President of the Financial Crimes Investigation Board at the Ministry of Finance. He joined Koç Holding as Finance Group Coordinator in 1998. He served as CEOs of Koçtaş (2002-2007), and Migros (2007-2008). He was appointed as the CEO of Arçelik in 2008, and also served as the Koç Holding Durable Goods Group President from 2010. He was appointed as the CEO of Koç Holding A.Ş. at April, 2015. Mr. Çakıroğlu currently serves as the CEO and Board Member of Koç Holding A.Ş. since April 2016.

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



**Kudret Önen**  
Board Member

Kudret Önen (born 1953, Istanbul) graduated from the Department of Mechanical Engineering at Gazi University. He joined Koç Group in 1975, as a mechanical engineer at Ford Otosan. Following his assignment as Project Engineer in Ford Otosan, he was appointed as the R&D Manager in 1980 at Koç Holding, and Assistant General Manager at Otogar in 1984. Between 1994 and 2005 he served as the General Manager at Otogar. After serving as the Co-President of the Other Automotive Companies Group within the Koç Holding in 2005, he served as the President of the Defence Industry and Other Automotive Companies Group of Koç Holding between 2006 and 2010. Since 2010, Mr. Önen has been serving as the President of the Automotive Manufacturers Association, Turkish Employers' Association of Metal Industries since April, 2016, and Turkish Confederation Of Employer Associations since December, 2016.

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



**Ahmet Serdar Görgüç**  
Board Member and  
General Manager

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

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



**İsmet Böcügöz**  
Independent Board Member

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

Pursuant to the CMB's Principles of Corporate Governance, Mr. Böcügöz who is non-executive, qualifies as an independent board member. Mr. Böcügöz, whose appointments in the last decade have been stated above, resigned from these duties after completing his term.

Mr. Böcügöz has not executed any transactions with Koç Holding A.Ş. or Ünver Holding A.Ş. related parties at any time in the last five years.



**Abdülkadir Öncül**  
Independent Board Member

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

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



**Ahmet Nezi Olcay**  
Independent Board Member

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

Mr. Olcay has not executed any transactions with Koç Holding A.Ş. or Ünver Holding A.Ş. related parties at any time in the last five years.

# SENIOR MANAGEMENT



**Ahmet Serdar Görgüç** General Manager

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



**Hüseyin Odabaş** Assistant General Manager – Finance

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



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

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



**Ali Rıza Alptekin** Assistant General Manager - Production and Procurement

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



**Murat Ulutaş** Assistant General Manager - Engineering

Murat Ulutaş began his professional career at Ford Otosan in 1992 as Product Development Assistant Manager and then served as Product Development Manager between 2001 and 2004, and as the Project Manager for the PUMA I5 Vehicle project in 2004 - 2005 at the same company. He has been serving as an Assistant General Manager at Otokar responsible for Engineering since 2006. Mr. Ulutaş graduated from the Department of Mechanical Engineering at Istanbul Technical University in 1991; he later went on to earn a Master's degree in the same discipline, also from Istanbul Technical University in 1993.



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

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



# OTOKAR IN 2016

# COMMERCIAL VEHICLES

## PASSENGER TRANSPORTATION

### The first technology and licencing export

agreement for small buses was signed for Navigo.

The products of Otokar, which has designed and produced personnel transport and tourism-focused as well as municipal and public buses for over 50 years in passenger transportation segment, today carry millions of passengers in more than 40 countries. Otokar prides itself in having Turkey's largest product range in the bus segment with an offering that includes buses from 7 to 18.75 meters.

According to the Automotive Manufacturers Association (OSD) data, midibus (7- to 9-meter bus) market contracted by 39 percent to 2,019 units in 2016. On the other hand, the bus market contracted by 33 percent. In 2016, the total Turkish bus and midibus exports rose by 20 percent due to the effect of the recovery in the European bus market.

### Leading Brand

Otokar, who saw lower units sold due to the contraction of the market, maintained its leadership in the Turkish bus market in 2016 regardless, became the best-selling bus brand in the sum of all its production segments. The company carried on its success thanks to its ability to present the vehicles that meet the expectations and needs of the markets in which it operates in the shortest time possible.

In 2016, Otokar became the only company in Turkey to win the articulated bus tender. Having won the tender

invited by the General Directorate of ESHOT under Izmir Metropolitan Municipality in April, the company delivered 100 Kent Articulated buses to ESHOT in 2016. Otokar will also provide maintenance support services for KENT Articulated buses under this contract. Otokar currently offers similar services for 900 KENT buses of Istanbul Metropolitan Municipality.

Also in 2016, Gaziantep Municipality became the first institution to use Kent CNG, which reduces environmental pollution by using natural gas in urban public transportation. In 2016, many different institutions and municipalities from the Muğla Metropolitan Municipality to Çanakkale public bus drivers added different types of Otokar buses to their fleets.

Otokar increased its small, medium and large-size bus exports by 18 percent in 2016 maintaining its success in many countries including France, Germany, Belgium, Italy, Spain, Greek Islands, Romania, Bosnia-Herzegovina, Macedonia, and Serbia. Having received the largest bulk order for the right-hand drive buses in Turkey in late 2015, Otokar delivered the additional right-hand drive KENT orders to Malta. The total number of Otokar buses on the Maltese streets has reached 176. The company sold vehicles to Lithuanian, Dutch and Jordanian markets for the first time in 2016, and presented the tourism-focused type of the Vectio bus, known as Doruk in Turkey, to the Polish market for the first time.



Vectio T buses, which offer low operating costs at high passenger capacity, began to be used for intercity transportation for the first time in Bulgaria after the delivery.

In 2016, Otokar took the 20,000<sup>th</sup> Navigo bus from the production line. The 20,000<sup>th</sup> Navigo was sold and delivered to French Danh Tourisme after its exhibition at the AutoCar Expo 2016 fair in France.

Otokar continued to participate in the exhibitions as part of the strategy to open up to new markets. It exhibited its products in countries such as France, Germany, Poland, and the United Arab Emirates in 2016, and it was the only Turkish manufacturer to participate in the Latin American bus exhibition. Also, Otokar exhibited its products inside Turkey at Busworld and Comvex Exhibitions, the largest domestic commercial vehicle exhibitions.

## Technology Exports

Otokar went beyond exporting vehicles and started to export technology and licenses in 2016. Otokar started to export technology and license to Iran for the Navigo buses, which won recognition with the Navigo brand in export markets. Otokar signed a technology and license agreement for the production of Navigo buses with Iran's OGHAB Afshan Industrial and Manufacturing Co. (OGHAB), which has over 55 years of bus production experience, as of the last quarter of 2016. With this

agreement, the first technology transfer will take place in the Turkish small bus industry. Under the agreement, OGHAB will carry out the assembly, sales, and marketing activities of Navigo vehicles to be exported to Iran as parts and subsystems (CKD - Completely Knocked Down). The technology and license agreement between Otokar and OGHAB will be valid for 3 years and can be extended for 2 years at both parties' request. OGHAB will pay a license fee of €500,000 to Otokar under this technology transfer agreement. In addition to CKD purchases, OGHAB will pay "royalty" in varying amounts in the future for each localized item to be procured from Iran instead of Otokar. OGHAB will be responsible for the assembly, sales and marketing of vehicles in Iran under the brand Otokar. Sales volume and turnover will vary depending on the developments in Iran's homologation regulations and market conditions.

Having enjoyed considerable recognition with its Euro 6 vehicles in the European market for a long time, Otokar presented its buses complying with Euro 6 regulations of the Euro 6 Emission Motor Vehicles Regulation, which came to force in Turkey on January 1, 2016. Otokar R&D centers have also designed Otokar buses with "Advanced Emergency Brake System - AEBS" and "Lane Departure Warning System - LDWS" in line with the safety-related regulations. Otokar applied the AEBS and LDWS systems in the bus group as a standard starting with the Vectio model in Turkey.

## The 20,000<sup>th</sup>

Navigo bus was delivered from the production line.



# #1

*The leader of  
Turkish  
bus market*



# COMMERCIAL VEHICLES

## CARGO TRANSPORTATION

### TRAILER

In 2016, the Turkish trailer market shrank by 27 percent compared to the previous year. One of the industry's most important agenda items in 2016 was harmonization with the ATP convention. Significant steps were taken in Turkey to make compulsory the Agreement on the International Carriage of Perishable Foodstuffs and on the Special Equipment to be used for such Carriage (ATP).

As part of the ATP efforts, Otokar Climatic Test Chamber with Dynamometer was determined as the first and only approved test station in Turkey for ATP-type approval tests, which will be applied to vehicle superstructures under the Turkish Standards Institution's (TSI) supervision. As a result of the ATP-type approval tests to be conducted in the Otokar Climatic Test Chamber, the industry will no longer engage in transfers from abroad as it does every year while avoiding economic exchange loss.

Having reached a wide product range in line with customer needs and expectations to meet the market demand, Otokar continued its success in the areas of dangerous goods transportation, perishable food transportation, and domestic cargo transportation. Otokar became Turkey's most preferred refrigerated trailer brand in 2016.

Otokar anticipated that the semi-trailer transportation model, which enables the mixed use of the road, rail and sea transport in international and intermodal transportation, will be preferred increasingly. In 2016, it achieved another first by creating an environment-friendly method that saves time and speed while reducing exhaust emissions. Otokar Iceliner became the first refrigerated semi-trailer to have been produced and certified in Turkey conforming to train loads (Huckepack) in Code XL load safety standards. Otokar has developed a new "Iceliner" semi-trailer thanks to the R&D processes, and it has a specially designed axle and suspension system with a huckepack feature. Iceliner can be loaded easily and safely with the help of special cranes on the special trains bearing the codes P 400 CODE e/f/g/i thanks to two the loading devices on both sides designed and marked according to the standards UIC595-6 and EN 130044. Also, the vehicle has one of the industry's lowest heat transfer coefficients. Iceliner promises safer transportation thanks to its certified superstructure that can resist high speeds on trains. It also enables safer cargo transportation with the EN 12642 CODE XL safety certificate, and it allows load dispersion during an accident inflicting minimum damage on the environment and load. Offering significant advantages in fuel and transportation costs, Iceliner comes to the fore with both ATP and HACCP hygiene certificates.

Otokar Iceliner  
**became the first  
refrigerated  
semi-trailer**  
to have been  
produced and  
certified in Turkey  
conforming to train  
loads (Huckepack) in  
Code XL load safety  
standards.



Otokar revealed its new Iceliner Huckepack semi-trailer to its customers at the COMVEX commercial vehicle exhibition. Otokar creates a difference with its superiority in product development for user expectations and requirements. In 2016, it delivered 40 specially-designed semi-trailers to Borusan Logistics for the transportation of Trakya Cam products. Equipped with a special sliding roof system, the trailers are capable of loading glass from every point while allowing for the transportation of cargo with maximum safety with the fastening of the glass transport seats that are on a special docket on the vehicle floor by means of the developed locking system.

## LIGHT TRUCK

Turkey's truck market contracted by 45 percent in 2016. In Otokar's truck group, the market shrank by more than 40 percent.

Otokar continued its operations with 8.5-tonne weight capacity Atlas after its entry into the light truck segment in 2013. Transforming its powerful performance into profit with an eco-friendly and economical engine, Atlas added new users with its low fuel consumption, low maintenance expenses and convenient spare parts costs. In addition to individual customers, public institutions and organizations preferred Atlas for challenging tasks. We continued to deliver Atlas garbage trucks and street-sweeping vehicles, which were procured by the Ministry of Environment and granted to all the municipalities throughout Turkey.

## About ATP

The Agreement on the International Carriage of Perishable Foodstuffs and on the Special Equipment to be used for such Carriage (ATP), was signed on September 1, 1970, in Geneva and entered into force on November 21, 1976. Turkey became one of the 49 countries in the world, which participated in this agreement with the law which came into effect after its promulgation in the Official Gazette on May 10, 2012.

The Ministry of Transport, Maritime Affairs, and Communications signed an ATP Protocol with the Turkish Standards Institute (TSI) on October 20, 2016. With this protocol, the Ministry authorized the TSI to carry out approval, certification, and testing of the special equipment used for the transportation of perishable foodstuffs.

Following the meeting requests and decisions of administrators from both institutions, the Ministry of Transport, Maritime Affairs and Communications and the Turkish Standards Institute determined Otokar Climatic Test Chamber as **the first and only approved test station in Turkey** for ATP-type approval tests, which will be applied to vehicle superstructures under the Turkish Standards Institution's (TSI) supervision. This ATP-related development is expected to expand especially the Turkish foodstuffs transportation market for semi-trailers.



# DEFENCE INDUSTRY

Turkey's sole national land defence systems manufacturer Otokar's approximately 30,000 vehicles continue to serve in more than 30 friendly and allied countries' armed forces and security forces on five continents. Otokar is a registered NATO and United Nations supplier offering tailored solutions to its clients with its own technology, design, and applications.

In addition to the product range of tactical wheeled and tracked armoured vehicles up to 60 tonnes, Otokar designs, develops and produces turret systems according to users' needs and expectations. Otokar exports its military products with the permission of relevant governments.

In 2016, Otokar established a company, "Otokar Land Systems Limited" ("Otokar LS"), in the Masdar City Free Zone in Abu Dhabi, United Arab Emirates to follow its export activities and increase its overseas sales especially in the Gulf region. The paid-up capital of the Entity is AED 50,000 and whole capital requirements to be underwritten by Otokar A.Ş.

## Otokar COBRA II is in mission

The successful performance of COBRA II, which was added to the product family in 2013, led to new orders. In June, Otokar received an order of €106.1 million for COBRA II from Turkish Undersecretary of Defence for use in various services of the security forces. The Company began to deliver the vehicles within the year. This delivery increased the number of Cobra II vehicles, which successfully operate on internal security duties. The deliveries started in December as planned, and Otokar intend to complete the process in the first quarter of 2017. As part of the €106.1 million order, the COBRA II 4x4 tactical wheeled armoured vehicles will be offered with various systems, maintenance, and support services.

COBRA II, besides, entered the Land Forces Command's inventory for the first time in 2016. Otokar commenced deliveries in 2016 of COBRA II order which was received at the end of 2015 in line with the Land Forces Command's need for reconnaissance and surveillance vehicles.

Developed for the Land Forces Command's use for Border Security duties, COBRA II Reconnaissance and Surveillance Vehicle consists of a system-level integration of the COBRA II platform's superior technical and tactical features to the high-performance electronic subsystems for reconnaissance and surveillance. The on-board Land Surveillance Radar and the long-range Electro-Optic Sensor System provide cross-border and long-range reconnaissance and surveillance capabilities thanks to effective software in various territory and climate conditions.

## Armoured Vehicle Deliveries Continue

Otokar also continued to deliver the orders of the Turkish Armed Forces and internal security forces for various types of armoured vehicles in 2016. The Company completed the deliveries of COBRA II, COBRA, URAL, and APV, which were ordered at the end of 2015, within the reporting year.

In 2016, Otokar signed a contract with Aselsan to supply the SARP remote command weapon system for the needs of the internal security forces. Deliveries under the contract will be completed in the first quarter of 2017.

Otokar delivered the previous year's orders of various Gulf countries for different types of armoured vehicles in 2016. Armoured Internal Security Vehicles and Ural Armoured Personnel Carriers were added to the users' inventories.

In 2016, Otokar established

**"Otokar Land Systems Limited"**

in Abu Dhabi, to follow its export activities and increase its overseas sales especially in the Gulf region.





The success of Otokar armoured vehicles continues to be a reference for new orders. A Gulf country that already uses the URAL armoured vehicle decided to increase the number of URAL vehicles in its inventory thanks to its successful performance. Otokar has signed a new agreement with the same user for URAL armoured vehicles. New vehicles will be delivered in 2017.


As the deliveries continued, potential users' Otokar vehicle tests also continued throughout the year. Otokar's ARMA 6x6, KAYA II, COBRA II and COBRA vehicles were tested together with users in North Africa and the Gulf countries. Otokar-designed vehicles proved their suitability for hot climate and geographical conditions in activities where mobility and live firing tests were carried out under challenging desert conditions. The vehicles' enormous success in durability tests was also appreciated by the countries carrying out these tests.

#### **Otokar's New Investment in Armoured Vehicle Technology**

Otokar has developed its ability to give a quick and quality response to domestic and foreign demand by investing in the latest technology in the face of increased demand for armoured vehicles. Having designed the national tank ALTAY, pride of Turkey, Otokar reflected its knowledge accumulation to the design of armoured vehicles

developing a welding method that allows the design of high protection-requiring vehicles with a balance of vehicle weight. It manufactured a double-robot welding automation cell to apply this welding method quickly and in good quality. The method will enable Otokar to deliver armoured vehicles to the users in the fastest way and with the top quality. Used first in the production of COBRA II, this investment perfects the products' protection level while Otokar has been able to provide service with higher capacity and efficiency.

Otokar carried on its promotion activities in the defence industry in 2016. It exhibited its vehicles and capabilities at defence industry fairs in Malaysia, France, Bulgaria, South Africa, Azerbaijan, and Indonesia. It exhibited Altay main battle tank and armoured vehicle product range in Efes 2016 Exercise held in Turkey. It also participated in the High Tech Port Defence Industry Expo with its Altay tank. In addition, Otokar officials participated in various conferences such as ICDDA Defence and Aviation Industry Cooperation Days, 8<sup>th</sup> Defence Technologies Congress, Land Systems Seminar and shared their know-how with the industry. In 2016, Otokar presented, upon the request of the Undersecretariat



**30+**

***countries utilize  
Otokar's  
defence systems.***

# DEFENCE INDUSTRY

## ALTAY PROJECT

for Defence Industries, its serial production proposal for the main battle tank Altay, for which it is the prime contractor in the design, prototyping, and qualification period.

In 2015, the Undersecretariat for Defence Industry issued the Call for Phase II: Serial Production Proposal, to start serial production preparations of main battle tank Altay simultaneously in accordance with the contract terms and realize its serial production without losing time. The only authorized company to receive this document, Otokar submitted its first and last serial production proposals on January 18, 2016, and August 29, 2016, respectively. Otokar's last proposal as the only bidding company includes the serial production of 250 ALTAY tanks and Integrated Logistics Support activities for them. The goal is to start serial production activities for the ALTAY tank which has state-of-the-art subsystems and ensure the entry of the modern main battle tanks to the Turkish Armed Forces inventory as soon as possible.

Otokar exhibited the main battle tank Altay also at the High Tech Port by MÜSİAD Expo, which took place in November. President Recep Tayyip Erdoğan obtained information regarding the ALTAY tank from Ali Y. Koç, Koç Holding Vice Chairman and Otokar Chairman, Levent Çakıroğlu, Koç Holding CEO, and Serdar Görgüç, Otokar's General Manager.

Otokar, 100% local company, prepared for 2016 to

do its full share in the defence industry with more than 100 leading suppliers together with its qualified human resources, its vast experience, know-how, and technology. In order to be ready to hit the production button in order to release first tanks off the line as soon as possible, Otokar drew up its production plan. The Company worked on all the infrastructure requirements and line planning for the serial production period. It obtained the Manufacture Permit from the Ministry of National Defence for the production of the main battle tank.

In addition to producing 250 units of ALTAY within 5 years as required by the Land Forces Command, Otokar made an annual capacity plan taking into consideration the export potential, mine clearance, and various complementary vehicle requirements such as rescue and fortification tank. In this way, it aims to have a flexible production program that can meet all demands of the Undersecretariat of Defence Industries or other friendly and allied countries.

In 2016, Otokar presented, upon the request of the Undersecretariat for Defence Industries, its serial production proposal for the main battle tank Altay, for which it is the **prime contractor** in the design, prototyping, and qualification period.

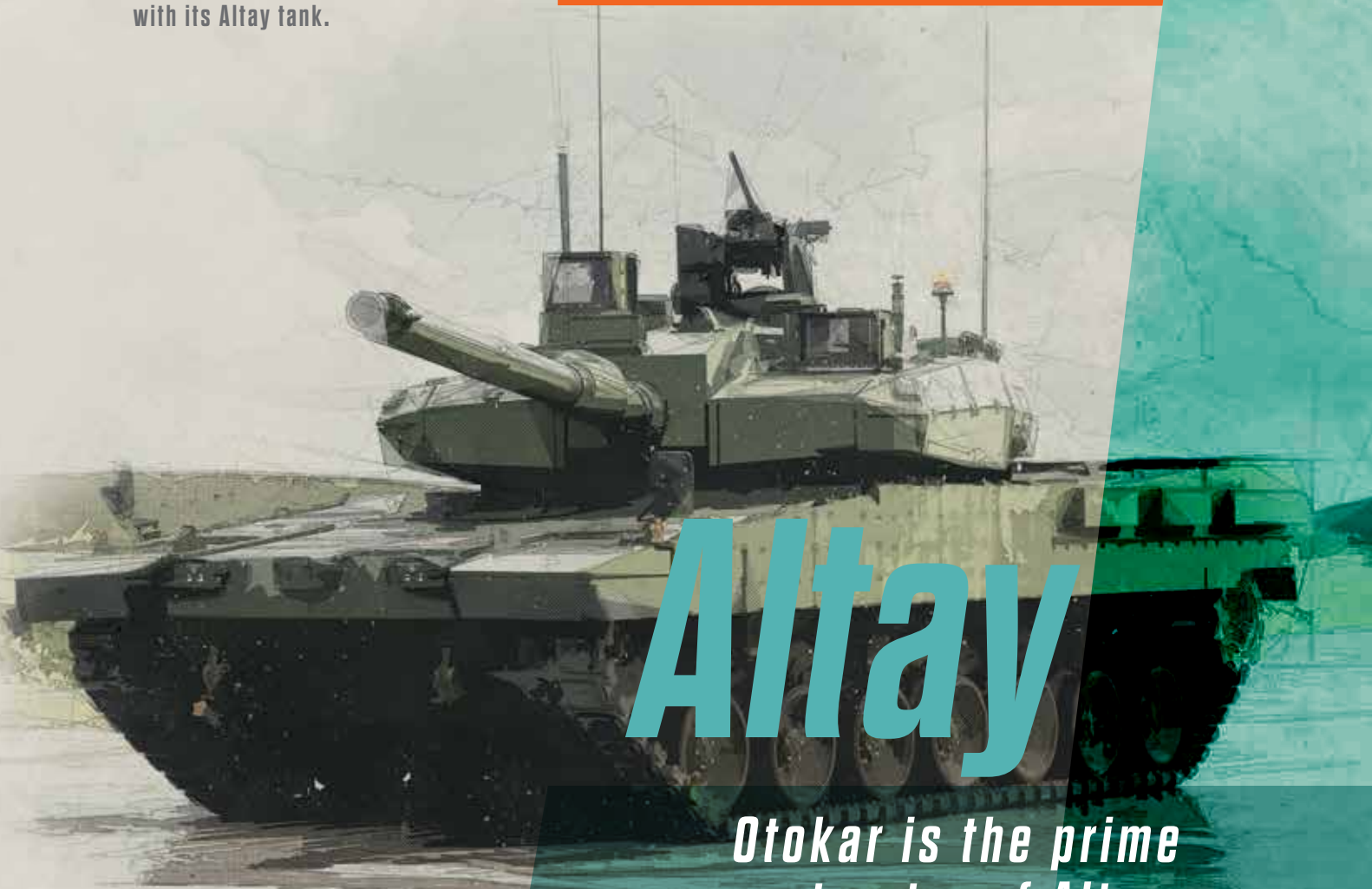






Otokar, participated in the High Tech Port Defence Industry Expo with its Altay tank.

The Undersecretariat for the Defence Industries of Turkey (SSM) has contracted Otokar as prime contractor for ALTAY Project. The Company is the exclusively responsible party to SSM regarding the design, development, integration, prototype production, testing, qualification of the Turkish National Main Battle Tank Altay, to meet the requirements of the Turkish Land Forces Command. The project consisted of two phases, and Phase I was initiated in January 2009 with three stages: **"Concept Design," "Detailed Design"** and **"Prototype Development and Qualification."** Otokar has successfully completed the concept design and prototype production phases of the ALTAY, and currently the acceptance tests continue for the prototypes. In 2016, upon the request of SSM, OTOKAR submitted its best and final offer for the Phase II: serial production of 250 ALTAY main battle tanks and their Integrated Logistics Support.



*Otokar is the prime contractor of Altay, Turkey's main battle tank.*



# R&D

Otokar has allocated 4,1% of its revenues to R&D activities for the last 10 years, and spent TL388 million on R&D expenditures on aggregate. Otokar has filed a total of 269 applications for patents, utility models, and industrial designs regarding its production and subsystem designs for the last 10 years, specifically 37 of them focusing on industrial designs. Otokar has submitted 30 patent applications only in 2016. The total number of employees in the R&D center reached 526 at end-2016.

In 2016, Otokar was entitled to an internationally accepted accreditation certification in the industry for its advanced and state-of-the-art. The International Accreditation Service (IAS) approved that its laboratories complied with the ISO/IEC 17025:2005 standards. Last year Otokar R&D Test Center Climatic Test Chamber was determined as the first and only approved test station in Turkey for ATP-type approval tests, which will be applied to vehicle superstructures under the Turkish Standards Institution's (TSI) supervision. As a result of the ATP-type approval tests to be conducted in the Otokar Climatic Test Chamber, the industry will no longer engage in transfers from abroad as it does every year while avoiding economic exchange loss. Therefore, Ministry and TSI officials visited the Otokar factory and received information about the facilities and ATP-type approval tests from the company officials on December 20, 2016.

"Smart transportation" solutions have gained importance in traffic as the rapid population growth in big cities brings about the concepts of "Smart Cities" and "Secure

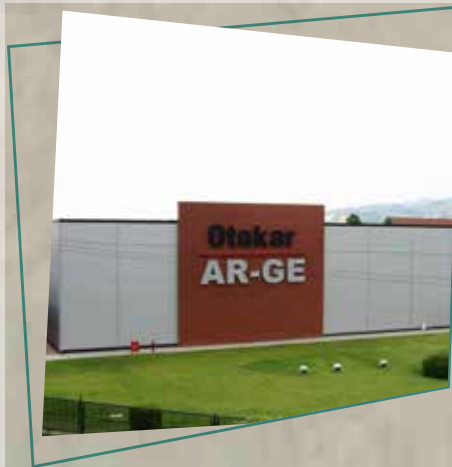
Transportation." Turkey's leading bus manufacturer Otokar, Turkey's leading information technology company KoçSistem and İSBAK have completed CoMoSeF, a smart transportation technology project that will lead the internet of things era. Having seen a four-year development stage, the project will enable smart buses to talk with each other, roadside units and traffic signaling system. CoMoSeF will improve driving quality while providing maximum traffic security.

The project was carried out under the European Union Eureka Celtic-Plus initiative. It aims to ensure safe driving by transmitting road, air and traffic information to vehicles. The system is a product of the project conducted to devise intelligent traffic systems of the future, and it will enable vehicles to talk to each other, communicate with roadside units and receive instant real-time information from traffic signalization systems.

The data obtained with CoMoSeF, which will facilitate traffic management especially in metropolises substantially, will be used to improve driving safety and support traffic management. This information will be provided to drivers, passengers and traffic authorities through mobile applications and services.

The CoMoSeF project was conducted with over 21 business partners from 7 countries, and the Turkish consortium was the only consortium to perform the on-vehicle demo. In addition, the Turkish consortium's project is cited as one of the successful applications in Europe.

Otokar  
submitted  
**30 patent**  
applications  
only in 2016.



## Otokar R&D Center Facilities

The Otokar R&D Center is equipped with simulators, test equipment, computer systems to generate and assess information for faster testing of manufactured vehicles with higher technology. Otokar's R&D capabilities include CAD programs for product development, prototype workshops and software, computer-assisted analysis, simulation software, and test-focused apparatus and software.

Today the Otokar R&D Center has Turkey's first and only dynamometric and Climatic Test Chamber, which is also one of the few facilities in Europe. Also, it has Turkey's highest capacity hydraulic road simulator and Turkey's largest and the world's latest Electromagnetic Compatibility Test Center. The Otokar Electromagnetic Compatibility (EMC/EMI) Test Center serves as an independent accreditation center for all the R&D activities of the automotive and defence industries both for Turkey and abroad.

## CONTRIBUTIONS OF SMART BUSES AND COMOSEF TO OUR LIVES

**Road Condition Information:** The system notifies the driver of warnings such as Icy Road, Bad Road, Closed Road, Slippery Ground by transmitting the information obtained from road-side units to the vehicles.

**Traffic Accident Information:** It informs drivers about the traffic accident's magnitude, direction and the distance to the accident scene.

**Road Maintenance Information:** It gives drivers road maintenance information and the distance until that point.

**Traffic Density Information:** The system informs the drivers about the traffic intensity according to vehicle direction.

**Intersection Collision Warning:** The system warns drivers and gives distance information if there is a possibility of collision with vehicles approaching the junction in accordance with the information received from other vehicles.

**Priority Vehicle Warning:** The system warns drivers to give priority to vehicles such as fire brigade, ambulance, police or tow/rescue vehicles in line with these vehicles' approach warning in the same direction.

**Speed Limit Warning:** The system warns drivers if the vehicle exceeds the speed limit on a particular road. Also, drivers receive information on green wave speed information if there is a green wave system in a particular area.

**Signaling Information:** The information is transmitted from the signaling systems to the drivers, and the traffic light change duration time can be seen on the in-vehicle information screen. If the traffic is red and the vehicle is on the move, the driver is also informed of the ideal average speed it can reach in case of green.





# CREATING VALUE FOR STAKEHOLDERS

## Clients

Aware of the significance of after-sales services, Otokar always strives to stay close to its users and meet their demands and requirements rapidly.

In 2016, Otokar's spare parts marketing and sales team undertook an important project that will enhance customer satisfaction. It took action for the use of vehicle maintenance products approved and supplied by Otokar. Otokar and Setkim Kimya reached a deal at the end of the talks aiming to extend the vehicle life and improve service quality while making the process all the more economical. Starting with the premises that original spare parts could be damaged by poor quality maintenance products, vehicle maintenance processes offered by the authorized services will be included under Otokar's guarantee. Also, maintenance centers will be standardized in this regard. For the first time, Otokar entered the maintenance products segment with the products marketed under its own brand due to the importance of providing the maintenance and cleanliness, continued quality, and initial performance for all used parts under Otokar brand's assurance after their repair in authorized maintenance centers. Therefore, Otokar engaged in meticulous development activities together with the supplier for about a year in every sense from label to product content and finally revealed Otokar-branded vehicle care products.

## Suppliers

In 2016, domestic supply accounted for 52 percent of Otokar's total procurement spending of over TL 1 billion for materials installed directly on vehicle from 550 suppliers. This rate gets higher when indirect materials, services, and transport are included.

Placing special emphasis on domestic procurement in the defence industry, Otokar participated in the ICDDA Industry Cooperation Days in Defence and Aerospace to expand domestic supply industry and SME portfolio and evaluate partnership opportunities. In November, Otokar came together with industrialists in Konya in a workshop organized at the Konya Chamber of Industry (KSO). Otokar officials held bilateral talks with 27 industrial companies in Konya, visited the facilities of seven companies and attended the KSO monthly ordinary assembly.

## Productivity

Otokar attaches importance to productivity improvement projects and supports the suggestions from the employees. The company received 2,603 such suggestions from its Otokar Suggestion System in 2016. It held development meetings with Field Staff to develop the suggestion system.

In the "Most Successful Koç Employees" competition organized by the Koç Group to reveal and reward the best practices and behaviors that will help Koç Group attain its vision and goals each year, Otokar ranked third with its "Orange Project" in the "Collaborators" category. The "Orange Project," has no similar example in the world, offers solutions to the orange peel problem, one of the most significant paint problems in the automotive industry. The project deals with the orange peel painting problem with a 78 percent improvement rate. Improvements to the orange peel problem enhance internal and external customer satisfaction, too.

Domestic supply accounted for **52 percent** of Otokar's total procurement spending of **over TL 1 billion** for materials installed directly on vehicle from 550 suppliers.





In 2016, Otokar developed a welding method that allows for the design of high protection-requiring armoured vehicles in balance with vehicle weight. Otokar is able to provide services with higher capacity and productivity thanks to the double-robot welding automation cell, which was produced for quick and quality applications.

### **“MESS Golden Glove and Golden Suggestion Occupational Health and Safety” Contest**

The contest was organized by the Turkish Metal Union and the Turkish Employers' Association of Metal Industries (MESS) for the second time this year.

The competition received a total of 135 applications this year, and Otokar won the “Golden Glove” award with the “Tanker Rotation” project, which eliminates risky situations in tanker production as well as the “Golden Suggestion” award with its “Trailer Door Rotation” project which removed the hand, arm wrist and back injuries from the production process.

Offering services to the logistics industry with tilted, refrigerated, tanker, semi-trailer and on-truck applications, Otokar's “Tanker Rotation” project involves rotating the tanker frame group until in the rotation apparatus after the welding of the tanker frame group. The new operation model has removed operator errors, security area violations in rotation process, labor loss and financial risks that could arise due to the dropping of the tanker.

Managing business processes with top measures according to national and international standards by adopting the philosophy of total excellence in production processes, Otokar's “Trailer Door Turning” project ends the workers' muscle and skeletal system disorders. The project prevents the risk of hand, arm, wrist and back injuries faced by employees during the production stage. In addition, it halves labor costs while eliminating quality problems that may arise during the rotation of the doors.



# SUSTAINABILITY

**81 percent of**  
“Otokar  
employees  
received  
training on  
**gender equality.**”

Otokar's sustainability strategy involves protecting the local capital structure and increasing company profitability with an environment-friendly business model that is closely linked to business ethics principles, poised for operational excellence and fully compliant with client expectations. It also based on high-tech and focuses on developing value-added products. Otokar adopts and actively supports the principles of the UN Global Compact signed by Koç Holding on behalf of all Group companies in 2006.

Aiming to create long-term value by combining economic, environmental and social factors with corporate governance principles, the Company's Otokar Sustainability Report presents a detailed description of such activities.

In 2016, Otokar was evaluated under the “Index Selection Criteria” determined by Borsa İstanbul and was found to meet expected values. It maintained its place in the BIST Sustainability Index of 43 companies.

## Environment

In 2016, Otokar undertook many environment-friendly product and production process development initiatives as one of the main contributors to its sustainability program. Carrying on its studies on alternative fuel vehicles, Otokar put KENT CNG buses, which run on natural gas, to Gaziantep's disposal. Also, it introduced Turkey's first electric bus to the visitors of Transist 2016, an event organized by the Istanbul Metropolitan Municipality.

It continued improvements on the production lines throughout the year with an emphasis on the environmental protection and occupational health and safety. In November 2016, an audit was carried out for the renewal of the ISO 14001 Environmental Management System Certificate with success. Otokar hosted a Preliminary Assessment Meeting for Integrated Environmental Permit, which was attended by the Ministry of Environment and Urban Planning, Sakarya and Yıldırım Beyazıt faculty members, academics and officials from the Automotive Manufacturers Association (OSD). Then, the participants visited Otokar's production facilities.

***Otokar increased the number of mobile libraries it provides to the General Directorate of Libraries and Publications, Ministry of Culture and Tourism to 10.***



Delivering training programs on the environment in Sakarya's various schools in recent years, Otokar attaches great importance to raising environmental awareness in the adults of the future. In 2016, Otokar explained energy conservation, recycling, and environmental pollution and our relevant responsibilities to the students during the training about environmental awareness in Sakarya's three primary schools.

## Corporate Social Responsibility

Under the "Supporting Gender Equality for my Country" project initiated within the Koç Group, Otokar raised awareness of 1,826 employees by enabling them to participate in "Information Mill" seminars. As a result, 81 percent of Otokar employees received training on gender equality.

Otokar carried the project "Supporting Gender Equality for my Country" to the public transportation industry at the Transportation Platform Award Ceremony held on March 8 International Women's Day. Otokar supported Gender Equality together with seven leading transportation industry associations. Handing out awards throughout 2016, Otokar crowned the support of the institutions, which work to ensure gender equity and increase female employment.

A new member joined the Otokar Employee Clubs. The Otokar Book Club was established to instill reading habits in Sakarya region and provide books to districts that face difficulties in acquiring books. In recent years, Otokar enabled many of its employees to return to their healthy weight with the dietitian polyclinic practice, which was implemented under the project "I Know No Obstacles for my Country" to reduce the employees' chronic disease risks. A nutrition polyclinic service was launched in 2016 for the same purpose. With a high attendance of the clinic, our participants shed a total of 150 kilos in four months and took successful steps toward a healthy life.

## Occupational Health and Safety

Otokar carries on its production operations under OHSAS 18001 standards in the Occupational Health and Safety practices with top security measures. Otokar was deemed worthy of the Golden Glove for the second time at the Golden Glove and Golden Suggestion Occupational Health and Safety Competition organized by Turkish Employers' Association of Metal Industries (MESS). The project "Tanker Rotation" was awarded the "Golden Glove" award by eliminating risky situations in tanker production while "Trailer Door Rotation" was recognized with the "Golden Situation" award.

In 2016, Otokar carried out health examinations for 2,030 individuals. Otokar provided a total of 27,840 hours of training for 2,284 factory employees including OSH training for 778 newly hired employees and OHS update training for 1,506 employees. Otokar carried out 18 occupational health and safety boards, including 12 occupational safety boards and 6 contractors' occupational safety boards. Otokar established 1,128 meters of horizontal lifelines on factory grounds, especially the crane routes. Otokar conducted an ergonomic risk assessment for 230 people at 170 points and new risk analysis at 31 points together with OSH specialists and on-site physicians. The accident frequency for 2016 came in at 11.57.

Otokar made various improvements on OHS, and the Ministry did not detect any inconveniences during the factory and garage inspections.



# HUMAN RESOURCES

As Otokar Human Resources, we adopt the goal of becoming a company where mutual trust and respect prevails while valuing participation and diversity based on the strength we gather through our employees. We can define our Human Resources Policy as ensuring our qualified human resources' continuous development, motivation and commitment to Otokar family.

Otokar aims to pioneer future technologies. Therefore, it continues its R&D Center investments at full speed for ensuring continuity in its R&D capabilities. In this context, 57% of office employees started their career as engineers at the R&D Center in 2016 whereas the number of employees at the center rose by 8% compared to 2015. Besides its R&D power, Otokar implemented its Field Employee Internal Announcement system to develop its production power. In this context, the Company ensured

in the average training hours per capita (29.55) compared to the past year.

Otokar launched an Auto Painting Course in its Arifiye facilities as part of its On-the-job Training Program to enable Otokar to meet its own field employee requirements with qualified candidates and raise equipped workforce for the market. Candidates started to work at Otokar after completing the course successfully. The most important strength of Otokar's long-established history and its current success is the dedication of its employees. Starting from this premise, Otokar launched its Otokar Service Awards System in 2016. The company recognized the employees with certain seniority levels with awards that had higher degrees depending on seniority years.

## OUR HUMAN RESOURCES MISSION

Otokar strives to become a leader in the industries where it operates with its investments and technology development efforts as it opens up to international competition in parallel with Koç Group's targets and strategies. In line with this mission, Otokar determines its Human Resources mission as transforming into the most preferred company for highly competitive, knowledgeable and dynamic employees in the defence and automotive industries.

## OUR HUMAN RESOURCES VISION

Recruit necessary human resources for the company's sustainability and develop systems and processes ensuring employee loyalty and satisfaction so that Otokar sustains its dynamic structure whereby it creates changes and leads technological developments in its industry rather than keeping up with them.

that its field employees benefited from new opportunities to embark on new career entries by taking different positions that matched their development competencies.

Increasingly differing national and global conditions cause rapid changes to customer needs and, indirectly, employees' development requirements. On the other hand, manifesting a rapid growth tendency in recent years, the company hired all staff from the millennials. In other words, personal and professional development is the top priority to ensure employee satisfaction. Under these circumstances, supporting them with appropriate training activities forms the foundation of our training and development policy.

In this context, the company carried out a total of 70,525 man-hours of training with a 15% increase in total training hours over the previous year. Also, it recorded a 25% surge

Also, the company applies an Employee Assistance Program to support employees' private lives in addition to the social activities the company implements to enrich social their lives. In this practice, all employees can obtain counseling support over the phone from experts in fields such as Psychological Counseling, Medical Counseling, Financial and Legal Counseling. Also, the employees are able to obtain free one on one psychological counseling services depending on their needs. Besides, the participants took important steps towards a healthier lifestyle by shedding a total of 150 kilograms thanks to the Dietitian Polyclinic launched in 2016.

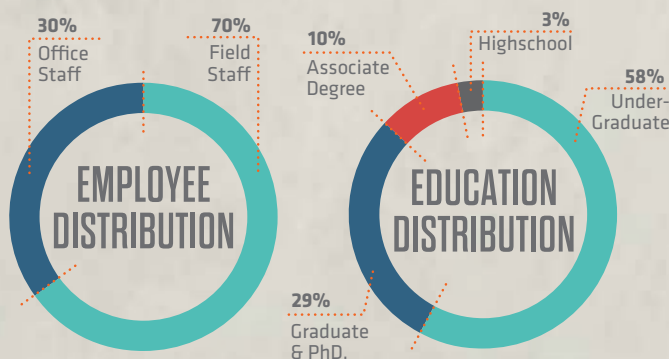
Otokar's Human Resources Department undertook numerous activities in 2016. In this respect, it will continue to be a strategic part of Otokar's long-established, vigorous and innovative identity with activities focused on the company's future.

### EMPLOYEE DISTRIBUTION

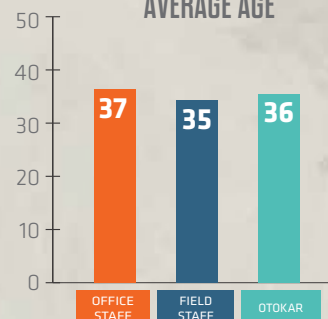
Office Staff	696
Field Staff	1,601
<b>Total</b>	<b>2,297</b>

### EDUCATION DISTRIBUTION

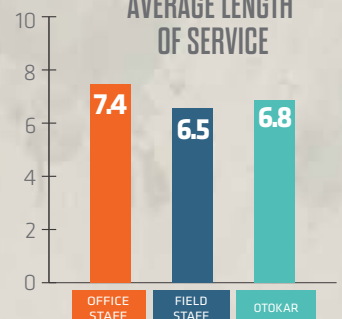
Post Graduate - PhD.	200
Undergraduate	403
Associate Degree	71
High School	22



### AVERAGE AGE



### AVERAGE LENGTH OF SERVICE



# FUTURE

Otokar anticipates that the recession starting in the commercial vehicle market last year will remain in 2017, and predicts that the city bus market will be on the rise due to delayed orders. Intending to maintain its leadership in the Turkish bus market, the Company aims to increase its market share with newly developed products in line with the expectations of its users and open up to new export markets. Otokar expects the refrigerated semi-trailer market to grow in perishable foodstuff transportation with the steps towards compliance with the ATP convention, and it further aims to boost its market share with products that meet domestic market requirements. Otokar will introduce innovations in the light vehicle segment with engines in Euro 6 emission standards, and it aims to grow in this segment, too.

Aspiring to boost its growth in overseas defence industry, Otokar took an important step towards this goal in early 2017. The General Headquarters (GHQ) of the UAE Armed Forces has awarded Al Jasoor a contract for the supply of 8x8 amphibious infantry fighting vehicles, at an estimated value of 661 million USD. Al Jasoor is a joint venture between Heavy Vehicles industries (HVI), a fully owned subsidiary of Tawazun, and Otokar Land systems UAE, a fully owned subsidiary of Otokar, Turkey. Revenues

that Otokar will directly generate within the scope of project will be consist of vehicles, CKD sales, technical consultancy and similar services and dividends from Al Jasoor. The deal, which includes product, technology transfer, consultancy and production in the United Arab Emirates, also became the biggest contract signed by the Turkish defence industry for a single item. In 2017, Otokar aims to complete the necessary preparations in the United Arab Emirates for the contract through Al Jasoor. Otokar will meet the demand of the United Arab Emirates for 8x8 armoured vehicles, which will reach 700 units when completed.

Otokar plans to carry on activities in the defence industry, as well as focus production and deliveries of the armoured vehicles orders. As the only national armoured vehicles manufacturer of Turkey, Otokar submitted its best and final offer for the serial production of Altay Main Battle Tank, the biggest land systems project of Turkey. As the only land defence systems manufacturer with the "Production Permit Certificate" required for serial production of the main battle tank, Otokar has prepared the necessary production schedule and infrastructure to launch serial production in the shortest time possible.

Intending to maintain **its leadership in the** Turkish bus market, the Company aims to **focus on export** activities in defence industry.



# CORPORATE GOVERNANCE



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# CORPORATE GOVERNANCE

## MEETING AGENDA

### **AGENDA OF THE ANNUAL GENERAL ASSEMBLY MEETING OF OTOKAR OTOMOTİV VE SAVUNMA SANAYİ A.Ş. ON MARCH 24, 2016**

- 1- Opening and election of the Chairmanship Committee
- 2- Presentation for discussion and approval of the Annual Report of the Company for the year 2016 as prepared by the Board of Directors
- 3- Presentation of the summary of the Independent Audit Report for the 2016 fiscal year
- 4- Presentation for discussion and approval of the Financial Statements of the Company for the 2016 fiscal year
- 5- Release of each member of the Board of Directors from liability for the affairs of the Company in 2016
- 6- Approval, approval with modifications, or disapproval of the Board of Directors' proposal prepared in line with the Company's profit distribution policy and pertaining to the date and issuance of profit distribution
- 7- Acceptance, amendment or rejection of the proposal of the Board of Directors regarding the amendment of Article 5 of the Company's Articles of Association titled "Headquarters and Branches of the Company" and Article 7 titled "Capital"
- 8- Resolution on the number of the members of the Board of Directors and their terms of office, and election of the members of the Board of Directors in accordance with the resolved number and election of the independent members of the Board of Directors
- 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 as 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 2016, and resolution of an upper limit for donations to be made in 2017
- 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 the year 2015 pursuant to the Corporate Governance Communiqué of the Capital Markets Board
- 14- Wishes and opinions

## MEMBERS OF THE BOARD OF DIRECTORS AND COMMITTEES

Board of Directors	Title	Beginning	Ending
Yıldırım Ali Koç	Chairman	28.3.2016	24.3.2017
Halil İbrahim Ünver	Vice Chairman	28.3.2016	24.3.2017
Levent Çakıroğlu	Member	28.3.2016	24.3.2017
Kudret Önen	Member	28.3.2016	24.3.2017
Ahmet Serdar Görgüç	Member - General Manager	28.3.2016	24.3.2017
Osman Turgay Durak	Member	28.3.2016	24.3.2017
İsmet Böcügöz	Independent Member	28.3.2016	24.3.2017
Abdulkadir Öncül	Independent Member	28.3.2016	24.3.2017
Ahmet Nezih Olcay	Independent Member	28.3.2016	24.3.2017

Audit Committee	Title	Beginning	Ending
İsmet Böcügöz	Chairman	28.3.2016	24.3.2017
Abdulkadir Öncül	Member	28.3.2016	24.3.2017

Corporate Governance Committee	Title	Beginning	Ending
İsmet Böcügöz	Chairman	28.3.2016	24.3.2017
Levent Çakıroğlu	Member	28.3.2016	24.3.2017
Hüseyin Odabaş	Member	28.3.2016	24.3.2017

Risk Management Committee	Title	Beginning	Ending
Abdulkadir Öncül	Chairman	28.3.2016	24.3.2017
Kudret Önen	Member	28.3.2016	24.3.2017

- \* 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.tr](http://www.otokar.com.tr)).
- \* The compensations provided to senior executives in 2015 have been included in Note 27 of the financial statements for the 2016 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.tr](http://www.otokar.com.tr)).
- \* Pursuant to management decision numbered as 2017/10 during the year, Board of Directors has been informed about the activities of the Board Committees in 2016.
- \* During 2016, Audit Committee has met 5 times, Corporate Governance Committee 7, and Risk Management Committee 7 times, respectively. The meetings have been held with the attendance of all committee members.



# CORPORATE GOVERNANCE

## RESUMES OF THE CANDIDATES FOR THE BOARD OF DIRECTORS

Board of Directors Candidate	Yıldırım Ali Koç	See Page 22 Board of Directors' Resumes
Board of Directors Candidate	Halil İbrahim Ünver	See Page 22 Board of Directors' Resumes
Board of Directors Candidate	Osman Turgay Durak	See Page 22 Board of Directors' Resumes
Board of Directors Candidate	Levent Çakıroğlu	See Page 22 Board of Directors' Resumes
Board of Directors Candidate	Kudret Önen	See Page 22 Board of Directors' Resumes
Board of Directors Candidate	Ahmet Serdar Görgüç	See Page 23 Board of Directors' Resumes
Board of Directors Candidate	İsmet Böcügöz	See Page 23 Board of Directors' Resumes
Board of Directors Candidate	Abdulkadir Öncül	See Page 23 Board of Directors' Resumes
Board of Directors Candidate	Ahmet Nezih Olcay	See Page 23 Board of Directors' Resumes

## DECLARATIONS OF INDEPENDENCE OF THE BOARD OF DIRECTORS CANDIDATES

I was nominated to serve as “independent member” in Otokar Otomotiv ve Savunma San. A.Ş. (the Company) in line with the legislation, Articles of Association and Capital Markets Board’s Corporate Governance Communiqué. Within this context I declare that:

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



İsmet BÖCÜGÖZ



Abdulkadir ÖNCÜL



Ahmet Nezih OLCAY

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

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

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

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

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

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

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

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

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

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

In the event of any of our Senior Management's resignation, a resignation premium may be paid by taking into consideration the term of appointment, term of senior manager, provided contribution, last target premium before resignation date, salary in the final year and premium information. Total amounts as determined based on these principles and paid to members of the Board of Directors during the year are submitted to the approval of the shareholders during the following Ordinary General Assembly.



# BOARD OF DIRECTORS REPORT OF OTOKAR OTOMOTİV VE SAVUNMA SANAYİ A.Ş. FOR THE PERIOD 01.01.2016-31.12.2016

Our Company presents to the shareholders and public its 2016 activities and consolidated financial statements preparing them in accordance with the Turkish Accounting Standards/Turkish Financial Reporting Standards which were implemented by the Public Oversight Accounting and Auditing Standards Authority (POA) pursuant to Capital Market Board's (CMB) "Communiqué on the Principles of Financial Reporting in Capital Markets", numbered II-14.1. Appendices and comments related to these standards were also considered in preparing financial tables.

Following is the information on the Board Members elected at the Ordinary General Assembly held on March 28, 2016, as well as their terms of office and limits of authority.

## Board of Directors

Name	Title	Terms of Office	
		Begins	Ends
Yıldırım Ali KOÇ	Chairman	28.03.2016	24.03.2017
Halil İbrahim ÜNVER	Vice Chairman	28.03.2016	24.03.2017
Osman Turgay DURAK	Member	28.03.2016	24.03.2017
Levent ÇAKIROĞLU	Member	28.03.2016	24.03.2017
Kudret ÖNEN	Member	28.03.2016	24.03.2017
Ahmet Serdar GÖRGÜÇ	Member - General Manager	28.03.2016	24.03.2017
İsmet BÖCÜGÖZ	Independent Member	28.03.2016	24.03.2017
Abdülkadir ÖNCÜL	Independent Member	28.03.2016	24.03.2017
Ahmet Nezh OLCA	Independent Member	28.03.2016	24.03.2017

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

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

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

## Partnership Aand Capital Structure

As of December 31, 2016, our company's registered capital ceiling is TL100 million, and the issued capital is TL24 million. Following is a list showing shareholders with more than 10% of the company capital, their shares, and their ratio in our capital:

# CORPORATE GOVERNANCE

## BOARD OF DIRECTORS REPORT OF OTOKAR OTOMOTİV VE SAVUNMA SANAYİ A.Ş. FOR THE PERIOD 01.01.2016-31.12.2016

Shareholder Title	Share Amount (TL)	Share (%)
Koç Holding A.Ş.	10,722,750	45
Ünver Holding A.Ş.	5,954,944	25
Other	7,322,306	30
<b>Total</b>	<b>24,000,000</b>	<b>100</b>

The balance representing 30.51% of our capital consists of shares with a nominal value of TL7,322,306, other shareholders and publicly held shares.

Our Company has a subsidiary, "Otokar Europe SAS," established and registered in France on August 18, 2011, to organize export activities and increase our sales abroad with 100% ownership of the fully paid up capital of €100,000 (TL239,280). The company did not hold Otokar Europe SAS's activities subject to consolidation as they did not affect its financial statements significantly in previous periods and followed them under the section "Financial investments."

Otokar Europe SAS is subject to consolidation as of the current year because its activities reached a considerable size in our company's financial statements. As of December 31, 2016, our Company prepared financial statements in a consolidated format.

Also, the company completed establishment procedures of "Otokar Land Systems LLC," established in the United Arab Emirates with a capital of AED 50,000 (TL41,398) in line with the resolutions adopted by the Board of Directors on April 13, 2016, to organize export activities and increase sales abroad, especially in these regions. Otokar Land Systems LLC is followed under the section "Financial investments" in the financial statements as it did not start its financial activities.

### Amendments to the Articles of Association

No amendments were made on the Articles of Association during the Ordinary General Assembly of Shareholders, which took place on March 28, 2016.

### Dividends Distributed in the Last Three Years and their Ratios

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

Period	(%)
2013	416.67
2014	333.33
2015	300.00

The company made cash payments regarding all the 2015 accounting period dividends to its shareholders on April 4, 2016. Our shareholders can access the company's corporate and financial data under the section "Investor Relations" on the website [www.otokar.com.tr](http://www.otokar.com.tr).

# BOARD OF DIRECTORS REPORT OF OTOKAR OTOMOTİV VE SAVUNMA SANAYİ A.Ş. FOR THE PERIOD 01.01.2016-31.12.2016

## Automotive Industry and Otokar

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

On July 29, 2008, Otokar and the Undersecretariat of Defence Industries signed Phase I Principal Agreement for the Design and Prototype Production of the Turkish Main Battle Tank under the "Modern Tank Production Project with National Capabilities." (Altay Project) Within this scope, the company completed the Project's Conceptual Design and Detailed Design stages in 2013. Then, it proceeded to the third and final stage, "Prototype Production and Qualification" and carried out prototype production activities in 2014.

In 2015, the company initiated System Qualification and Acceptance Tests, the final chapter for the completion of the Project, and the successful test results signified the end of the last stage. The company planned to complete all tests in the first quarter of 2017.

In addition, it submitted its proposal file to the Undersecretariat of Defence Industries on January 18, 2016, for the Altay Project Phase II Serial Production Project regarding the production of 250 Main Battle Tanks and their Integrated Logistic Support activities under the relevant articles of the current contract. The Undersecretariat for Defence Industries requested Otokar's best and final offer (BAFO) following its initial evaluation, and the company presented this offer on August 29, 2016. The Undersecretariat for Defence Industries carries out evaluation studies on offer, which have also reached the final stage. The Undersecretariat for Defence Industries is expected to announce the decision on the serial production process in the first half of 2017.

In our material event disclosure on September 27, 2016, we announced to the public that our company estimates the establishment of a joint venture with the participation of Otokar Land Systems Limited LLC (Otokar LS), our subsidiary, and Heavy Vehicles Industries LLC (HVI), a Tawazun Operations Company LLC (Tawazun) subsidiary, to cooperate with the BAE-based Tawazun in defence industry activities in the countries of the region and primarily the BAE. In this context, we disclosed to the public the signing of a Partnership Agreement between Otokar LS and HVI in order to determine the operating and management principles of Al Jasoor Heavy Vehicles Industries LLC (Al Jasoor), a joint venture company whose establishment procedures are under way in the BAE.

As a result of the efforts of Otokar and Tawazun, the company was awarded the supply of 8x8x armoured vehicles to the BAE Armed Forces to be provided by Al Jasoor. We expect Al Jasoor to supply a total of 700 units of 8x8 armoured vehicles to the BAE Military Forces in the coming years. In the first stage, the BAE Military Forces and Tawazun signed contracts for a total amount of \$661 million to be transferred to Al Jasoor within six years. In the coming months, the parties will set out the details of the design and production of the second phase which will include the development of different types in line with different tasks.



# CORPORATE GOVERNANCE

## BOARD OF DIRECTORS REPORT OF OTOKAR OTOMOTİV VE SAVUNMA SANAYİ A.Ş. FOR THE PERIOD 01.01.2016-31.12.2016

### MARKET - SALES - PRODUCTION

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

- Total vehicle production rose year on year to 1.486 million units by 9% in the January-December 2016 period, while the automobile production surged by 20% to 951,000 units. Similarly, the transportation vehicle market in 2016 was close to the levels of the last year at 1.008 million units, while automobile market rose by 4% with 757,000 units.

In 2016, vehicle segment-based production showed the following developments year on year;

- Light Commercial Vehicles Segment; 6% decline in minibuses  
53% decline in midi-buses  
2% decline in pickups.
- Heavy Commercial Vehicles Segment; 8% decline in buses  
52% decline in large size trucks  
48% decline in minor size trucks.
- The imported light commercial vehicle sales recorded a 1% year-on-year increase 2016, while the domestic light commercial vehicle sales declined by 12%.
- The imports had a 48% market share in this period.

### PRODUCTION AND SALES

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

	2016		2015		Change (Units)		Change (%)	
	Production	Sales	Production	Sales	Production	Sales	Production	Sales
Small Bus	990	1,347	2,817	2,258	(1,827)	(911)	(65)	(40)
Bus	665	697	714	608	(49)	89	(7)	15
4x4 Off-road vehicles	99	103	72	71	27	32	38	45
Armoured Vehicles	607	595	481	487	126	108	26	22
Trailer	628	625	999	1,007	(371)	(382)	(37)	(38)
Truck	1	266	531	295	(530)	(29)	(100)	(10)
<b>TOTAL</b>	<b>2,990</b>	<b>3,633</b>	<b>5,614</b>	<b>4,726</b>	<b>(2,624)</b>	<b>(1,093)</b>	<b>(47)</b>	<b>(23)</b>

## BOARD OF DIRECTORS REPORT OF OTOKAR OTOMOTİV VE SAVUNMA SANAYİ A.Ş. FOR THE PERIOD 01.01.2016-31.12.2016

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

Our company's 2016 revenue rose by 14% year on year.

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

	2016 (TL)	2015 (TL)	Change (%)
Domestic sales	1,192,701,280	1,014,925,095	18
Overseas sales	441,813,418	41,042,792	5
<b>TOTAL</b>	<b>1,634,514,698</b>	<b>1,433,967,887</b>	<b>14</b>

Our overseas total sales amounted to \$144,827,389 in 2016 (\$149,137,561 in 2015) accounting for 27% of the total turnover. (2015: 29%)

In 2016, our capacity utilization was 23%. (2015: 51%)

Otokar owes its growth to the products of its own design and intellectual property rights, developed through engineering and research development capabilities.

Defining its strategies as growing in the defence industry, increasing the share of exports in its turnover expanding on the backdrop of new models, Otokar carries on activities to reach these targets.

### INVESTMENTS

Otokar continued its investments in 2016 with the previously started "Otokar R&D Center" investments, making a crucial decision in the area of research and development with a view to achieving its rapid growth target with vehicles for which the intellectual rights are owned by Otokar.

Our Company's total investments amounted to USD 5.3 million in 2016.

# CORPORATE GOVERNANCE

## BOARD OF DIRECTORS REPORT OF OTOKAR OTOMOTİV VE SAVUNMA SANAYİ A.Ş. FOR THE PERIOD 01.01.2016-31.12.2016

### ADMINISTRATIVE OPERATIONS

In 2016, our company's senior management staff and duties are as follows:

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

As of December 31, 2016 our Company has 2,297 employees in total (2015: 2,105). Of these employees, 696 (2015: 621) are administrative and office staff, and 1,601 (2015: 1,484) are field staff. No incidents of disputes or labour movements were observed during the year.

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

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

Our Company's Corporate Governance Rating rose from 92.81 (9.28) in 2015 to 93.19 (9.32) in 2016.

Aiming at continually improving the value added to the society and contributing more to building a better future, the company's activities in social, economic and ethical dimensions have been detailed in the 2015 Otokar Sustainability Report, which can be accessed on the corporate website [www.otokar.com.tr](http://www.otokar.com.tr).

### FINANCIAL RESULTS

Our Company presents to the public its 2016 consolidated financial statements, which have been prepared in accordance with the Turkish Accounting Standards/Turkish Financial Reporting Standards that were implemented by the Public Oversight Accounting and Auditing Standards Authority (POA) pursuant to Capital Market Board's (CMB) "Communiqué on the Principles of Financial Reporting in Capital Markets", numbered II-14.1. Appendices and comments related to these standards were also considered in preparing financial tables.



## BOARD OF DIRECTORS REPORT OF OTOKAR OTOMOTİV VE SAVUNMA SANAYİ A.Ş. FOR THE PERIOD 01.01.2016-31.12.2016

The financial tables, notes, and ratios showing the results of our activities in 2016 are also presented for your information.

The consolidated revenues of our company as of end 2016 totaled TL1,634,514,698 while we posted TL409,845,277 in gross sales profit.

Pursuant to CMB regulations and according to the consolidated financial statements prepared in accordance with Turkish Financial Reporting Standards, the Company has posted a profit of TL68,080,363 before tax, and a net profit of TL69,725,866 in 2016.

In our Annual General Assembly on March 28, 2016, the upper limit for donations to be made by the Company in 2015 was set at TL3,500,000. In 2016, our Company provided tax-deductible donations and aid amounting to TL1,460,900 to foundations and associations for charitable purposes.

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

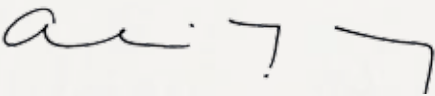
In accordance with the Profit Distribution Proposal attached herein we present to your approval that, our shareholders, shareholders in unlimited taxpayer status and shareholders in limited taxpayer status, who earn profit share through a business unit or a permanent representative in Turkey be paid TL2.50 gross=net cash dividend per one share with the nominal value of TL1.00 at the rate of 250.00%; Other shareholders be paid TL2.125 net cash dividend per one share with the nominal value of TL1.00 at the rate of 212.50% and that the beginning date of payment of the dividends amounting to TL60,000,000 be Friday, March 31, 2017.

We have submitted an overview of the operations in 2016 and the generated results for your information.

### Dear Shareholders,

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

İstanbul, March 1, 2017



Yıldırım Ali KOÇ  
Chairman

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

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

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

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

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

# PROFIT DISTRIBUTION PROPOSAL FOR THE ACCOUNTING PERIOD 01.01.2016-31.12.2016

According to our non-consolidated financial statements pertaining to the 01.01.2016-31.12.2016 accounting period, prepared in accordance with Turkish Accounting Standards/Turkish Financial Reporting Standards (TMS/TFRS) pursuant to Capital Market Board's (CMB) "Communiqué on the Principles Financial Reporting in Capital Markets", numbered II-14.1, a "Non-consolidated Net Profit" of TL 69,725,866 has been posted. Our profit distribution proposal, taking into account our long-term corporate strategy, the capital requirements of our Company, investments and financing policies, and profitability and cash position, is presented below. In line with the resolution reached at the Annual General Assembly, the dividend payment will start on March 31, 2017

## Otokar Otomotiv ve Savunma Sanayi A.Ş. Profit Distribution Statement 2016 (TL)

1. Paid-in/Issued Capital		24,000,000
2. Legal Reserves (based on Legal Records)		53,918,147
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	68,080,363	62,706,571
4. Taxes Payable (-)	1,645,503	
5. Net Profit for the Period (=)	69,725,866	62,706,571
6. Retained Losses (-)		
7. Legal Reserves (-)		
8. NET DISTRIBUTABLE PROFIT FOR THE PERIOD (=)	69,725,866	62,706,571
9. Donations made during the year (+)	1,460,900	
10. Donations Included Net Distributable Profit for the Period	71,186,766	
Primary Dividend to Shareholders		1,200,000
11. - Cash	35,593,383	
- Bonus Shares		
- Total		
12. Dividend Paid to Holders of Preferred Shares		
Other Dividend Paid		
13. - to Board Members		
- to employees		
- to parties other than stakeholders		
14. Dividend Paid to Holders of Dividend Right Certificate		
15. Secondary Dividend to Shareholders	24,406,617	55,915,064
16. Legal Reserves	5,880,000	5,591,506
17. Statutory Reserves		
18. Special Reserves		
19. EXTRAORDINARY RESERVES	3,845,866	-
20. Other Funds Proposed to be Distributed		
- Retained Earnings		2,884,936
21. Legal Reserves Allocated for Other Sources as Proposed to be Distributed		288,494

## Dividend Ratio Table

GROUP		Total Dividend Distributed (TL)		Total Dividend Distributed/ Net Distributable Profit for the Period	Dividend Per Share at Par Value of 1 TL	
		Cash (TL)	Bonus (TL)		Amount (TL)	Ratio (%)
GROSS	-	60,000,000	0	86%	2.50000	250.000
	TOTAL	60,000,000	0	86%	2.50000	250.000
NET	-	51,000,000	0	73%	2.12500	212.500
	TOTAL	51,000,000	0	73%	2.12500	212.500



## AMENDMENTS TO THE ARTICLES OF ASSOCIATION AND BOARD OF DIRECTORS' RELEVANT RESOLUTION

Our Board of Directors decided during its meeting dated January 24, 2017, to obtain necessary permissions from the Capital Markets Board and the Ministry of Customs and Trade to amend Article 5 “Headquarters and Branches” and Article 7 “Capital” of the Company’s Articles of Association and submit such amendments for the shareholders’ approval in the following General Assembly.

Following are the draft amendments to the Articles of Association approved by the Capital Markets Board and the Ministry of Customs and Trade on February 13, 2017, and February 17, 2017, respectively. They will be presented for the approval of our shareholders as the Item 7 of the General Assembly Agenda.

### PREVIOUS TEXT

#### **Article 5: The Company’s Headquarters and Branches**

The company’s legal headquarters is located at Aydınevler Mahallesi, Dumlupınar Caddesi, No. 58, A Blok, 34854, Küçükyalı, İstanbul, whereas its business headquarters is located at Atatürk Caddesi, No. 6, 54580, Arifiye, Sakarya. In case of change of address, the new address shall be registered in the Trade Registry and announced in Turkey’s Trade Registry Gazette. Also, it shall be notified to the Ministry of Customs and Trade and Capital Markets Board. The notification to the registered and announced address shall be deemed to have been made to the Company. The failure of a company to register and announce its new address despite leaving its registered and announced address is considered to be a reason for termination.

If the company opens new branches, such branches shall be registered in the Trade Registry and announced in Turkey’s Trade Registry Gazette.

### NEW TEXT

#### **Article 5: The Company’s Headquarters and Branches**

The company’s legal headquarters is located at Aydınevler Mahallesi, **Saygı** Caddesi, No. 58, A Blok, 34854, **Maltepe**, İstanbul, whereas its business headquarters is located at Atatürk Caddesi, No. 6, 54580, Arifiye, Sakarya. In case of change of address, the new address shall be registered in the Trade Registry and announced in Turkey’s Trade Registry Gazette. Also, it shall be notified to the Ministry of Customs and Trade and Capital Markets Board. The notification to the registered and announced address shall be deemed to have been made to the Company. The failure of a company to register and announce its new address despite leaving its registered and announced address is considered to be a reason for termination.

If the company opens new branches, such branches shall be registered in the Trade Registry and announced in Turkey’s Trade Registry Gazette.



# AMENDMENTS TO THE ARTICLES OF ASSOCIATION AND BOARD OF DIRECTORS' RELEVANT RESOLUTION

## PREVIOUS TEXT

### Article 7: Capital

The company accepted the registered capital system in line with the provisions of the Law No. 2499 and switched to the system with the permission of the Capital Markets Board dated March 7, 1996, and No. 15/263.

The company's registered capital ceiling amounts to TL100,000,000 (one hundred million), and it is divided into 10,000,000,000 (ten billion Turkish lira) registered shares each having a value of 1 (one) kuruş.

The registered capital ceiling permission granted by the Capital Markets Board is valid for the (5-year) period between 2013 and 2017. Although the company has not reached the permitted registered capital ceiling at the end of 2017, it is mandatory for the Board of Directors to obtain a permission from the Capital Markets Board for the previous or a new ceiling amount, and then obtain authorization from the General Assembly for a new period that shall not exceed five years to be able to adopt a capital increase resolution after 2017. The company is deemed to have exited the registered capital system if it cannot be obtained such authorization.

The company's issued capital amounts to TL24,000,000 (twenty-four million Turkish lira), and it was paid in full and free from collusion.

The company's shares are registered shares. The shares representing the capital shall be monitored in line with dematerialization principles.

The company shall be able to increase or decrease its capital, when necessary, in line with the provisions of the Turkish Commercial Code and Capital Markets Legislation.

The Board of Directors shall be authorized to increase the issued capital by issuing new shares up to the registered capital ceiling in line with the provisions of the Capital Markets Law and adopt resolutions to restrict privileged shareholders' rights, limit shareholders' right to acquire new shares and issue shares lower than premium or nominal values. The authority to restrict new share acquisition shall not be used to lead to inequality among shareholders.

## NEW TEXT

### Article 7: Capital

The company accepted the registered capital system in line with the provisions of the Law No. 2499 and switched to the system with the permission of the Capital Markets Board dated March 7, 1996, and No. 15/263.

The company's registered capital ceiling amounts to TL100,000,000 (one hundred million), and it is divided into 10,000,000,000 (ten billion Turkish lira) registered shares each having a value of 1 (one) kuruş.

The registered capital ceiling permission granted by the Capital Markets Board is valid for the (5-year) period between **2017 and 2021**. Although the company has not reached the permitted registered capital ceiling at the end of **2021**, it is mandatory for the Board of Directors to obtain a permission from the Capital Markets Board for the previous or a new ceiling amount, and then obtain authorization from the General Assembly for a new period that shall not exceed five years to be able to adopt a capital increase resolution after **2021**. The company **shall not be able to increase capital through the Board of Directors** if it cannot obtain such authorization.

The company's issued capital amounts to TL24,000,000 (twenty-four million Turkish lira), and it was paid in full and free from collusion.

The company's shares are registered shares. The shares representing the capital shall be monitored in line with dematerialization principles.

The company shall be able to increase or decrease its capital, when necessary, in line with the provisions of the Turkish Commercial Code and Capital Markets Legislation.

The Board of Directors shall be authorized to increase the issued capital by issuing new shares up to the registered capital ceiling in line with the provisions of the Capital Markets Law and adopt resolutions to restrict privileged shareholders' rights, limit shareholders' right to acquire new shares and issue shares lower than premium or nominal values. The authority to restrict new share acquisition shall not be used to lead to inequality among shareholders.

# CORPORATE GOVERNANCE

## DECLARATION OF COMPLIANCE WITH THE PRINCIPLES OF CORPORATE GOVERNANCE

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

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

As an indication that the Company has significantly adapted to corporate governance principles and that its efforts toward full compliance with corporate governance principles will increase and continue, the Company’s corporate governance rating has been increased to 93.19 (9.32 over 10) by SAHA Kurumsal Yönetim ve Kredi Derecelendirme Hizmetleri A.Ş., as announced in our material disclosure on March 21, 2016.

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

Main Headings	Weight	Weight
Shareholders	%25	95,33
Public Disclosure and Transparency	%25	92,57
Stakeholders	%15	97,13
Board of Directors	%35	90,41
<b>Total</b>		<b>93,19</b>

Corporate Governance Rating Report can be found at our corporate website [www.otokar.com.tr](http://www.otokar.com.tr).

While compliance with the mandatory principles of the Corporate Governance Communiqué numbered II-17.1 applicable in 2016 was fully accomplished, compliance with the non-mandatory principles was achieved to a great extent. While full compliance with the non-mandatory principles is not part of the objectives, due to the challenges encountered in the implementation of some principles, on-going discussions in Turkey and internationally regarding compliance with certain principles, and the failure of the current market and corporate structure to comply with such principles in a proper fashion, full compliance has not been achieved. We are working on the principles not yet implemented and we plan to apply them once the administrative, legal and technical infrastructure for the effective governance of our company has been completed. The following sections detail, for each principle, the comprehensive efforts being made in our company within the framework of corporate governance principles, the principles with which compliance has not yet been achieved and, if any, conflicts of interest that stem from them.

The activities in the area of Corporate Governance in 2016 were executed in compliance with the Capital Markets Law that includes new regulations about CMB’s corporate governance principles and the communiqués issued based on this Law. The Board of Directors and its committees have been formed in 2016’s Ordinary General Assembly in line with the provisions of the Corporate Governance Communiqué. The committees formed under the board of directors are functioning effectively. The remuneration policy for the board of directors and senior management was established and announced at the General Assembly. The information that must accompany the disclosure document to be submitted to the General Assembly includes such standard documents as those indicating preferred shares, voting rights and organizational changes, as well as the CVs of Board of Directors membership nominees, the remuneration policy for Board Members and other information that is required to be disclosed, all of which were provided to our investors three weeks prior to the General Assembly. In addition, the Company’s website and annual report were reviewed and revisions required to comply with the principles were made.



# DECLARATION OF COMPLIANCE WITH THE PRINCIPLES OF CORPORATE GOVERNANCE

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

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

- Regarding principle 1.5.2., minority rights for shareholders holding less than one twentieth of the capital have not been defined in the articles of association, and the rights have been defined within the frame of general provisions in the legislation.
- Regarding principle 4.3.9., a target rate and timeframe for female members on the board of directors has not yet been determined, and the issue is currently being reviewed. Detailed explanation regarding the issue is given in section 5.1.
- Regarding principle 4.4.7., as it is explained in section 5.1, members of the board of directors, have not been limited in terms of conducting external duties.
- Regarding principle 4.5.5., committee appointments are decided, taking into consideration Board members' expertise and experience, and in accordance with relevant regulations, some board members serve on more than one committee. However, the said members facilitate communication and increase the opportunities for cooperation between committees handling related subjects.
- Regarding principle 4.6.5., remunerations provided to the Board of Directors and the senior management with administrative responsibilities are included in the notes to our financial statements and disclosed to the public collectively.

## SECTION II — SHAREHOLDERS

### 2.1. Investor Relations Unit

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

Its main activities include:

- Promoting the Company to individual and institutional investors in Turkey and abroad, providing information to potential investors and shareholders, and meeting the information needs of analysts and specialists working in institutions,
- Answering questions and meeting the needs of the shareholders,
- Informing shareholders and potential investors of macro and micro developments through investor meetings,
- Providing the most accurate, swiftest and complete information by regularly updating the website, annual report, investor presentations, investor bulletins and such means of communication,
- Carrying out all kinds of public disclosure activities as required by the regulations, such as financial reporting and disclosing of special situations to the public, and also other functions related to public disclosure within the scope of the Company's disclosure policy,
- Ensuring that the Annual General Assembly is held in accordance with applicable regulations, articles of association, and other internal regulations,
- Recording voting results and informing shareholders of the reports which contain voting results through the minutes of the Annual General Assembly,
- Preparing documents which may be used by shareholders, and publishing such documentation on the Company's website three weeks prior to the Annual General Assembly,

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- Ensuring that dividends are paid to the shareholders,
- Providing a two-way flow of information by playing the role of an interlocutor between shareholders and the Company's senior management,
- Monitoring any amendments to the legislation and laws, and ensuring that they are implemented by the Company.

Investor Relations Department has held 86 one-to-one meetings, 42 of which were abroad, and 122 teleconferences with analysts from stockbrokerage companies, and local and foreign investors in 2016. The department has attended 4 investors' conferences, 2 of which were abroad, and organized 1 roadshow to a country. Furthermore, 1 plant visit for corporate investors and analysts has been organized during the year.

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

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

Contact information for the Investor Relations Department are provided below:

Name	Title	Phone	e-mail
Hüseyin Odabaş	Assistant General Manager - Finance	+90 264 229 22 44	hodabas@otokar.com.tr
İrfan Özcan	Financial Affairs Director	+90 264 229 22 44	iozcan@otokar.com.tr
Doğan Seçkinler	Finance Manager	+90 264 229 22 44	dseckinler@otokar.com.tr
Hatice Gülşah Mutlu	Corporate Governance Specialist	+90 264 229 22 44	gmutlu@otokar.com.tr

### 2.2. Exercise of Shareholders' Rights to be Informed

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

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

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

# DECLARATION OF COMPLIANCE WITH THE PRINCIPLES OF CORPORATE GOVERNANCE

submitted to the unit on this subject.

## 2.3. General Assembly Meetings

In 2016, one Ordinary General Assembly was held on March 28, 2016 with 75% attendance at Divan Istanbul Hotel, Asker Ocağı Cad. No:1 Elmadag, Şişli – Istanbul. The General Assembly Meeting, aiming to encourage wider participation by the shareholders, was held at a location where the shareholders are numerically in majority, in a manner not to allow any inequalities among the shareholders and to ensure attendance with minimum costs, as it is directed in Company's Articles of Association.

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

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

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

The Company announces any required documents related to the agenda items prior to the Annual General Assembly to the public, and abides by legal processes and legislation in all announcements. Within the scope of the Annual General Assembly Agenda, the Annual Report, Financial Statements, Corporate Governance Compliance Report, Dividend Distribution Proposal, Independent Auditor's Report, and the new and old versions of the amended Articles of Association are made available for the inspection of shareholders at the Company's Headquarters and on the website, three weeks prior to the Annual General Assembly. In addition, a detailed explanation is included in the information document about each and every agenda item. Investors are also provided with further information regarding the Annual General Assembly, as set out by the Principles. Shareholders are informed of the voting procedure to be applied at the Annual General Assembly through the Company's website and announcements in newspapers. In Annual General Assemblies, votes on the agenda items are taken by show of hands, and an open voting method is used.

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

Asking questions and expressing their opinions on the issues at the Annual General Assemblies held under the supervision of representative of the Ministry of Customs and Trade, are the most natural of shareholders rights. Accordingly, the Chairing Board ensures, in accordance with the procedures, that the Company's shareholders exercise their right to ask questions, to table suggestions regarding agenda items, and to discuss their suggestions in the Annual General Assembly. The shareholders have not proposed any addendum to the agenda. All the questions directed by the shareholders to the General Assembly were answered by the Chairman of the Board of Directors and Senior Management of the Company. There were no questions left unanswered. All minutes of Annual General Assemblies and attendance lists for past years may be obtained from the company's Head Office and the Minutes of Annual General Assemblies held in the past 5 years are also available on our corporate website.



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Additionally, the minutes are made available at the Company's Head Office, whenever demanded by shareholders.

In the Annual General Assembly held in 2016, shareholders were informed of the donations and aid made in 2015 on a separate agenda item. The limit for donations in 2016 was set at TL 3,500,000. The company does not yet have a policy in place for donations and aids. However, maximum annual donation amount allowed is determined by the shareholders at the General Assembly in accordance with CMB regulations.

### 2.4. Voting Rights and Minority Rights

There are no privileges regarding the exercise of voting rights set out in the Company's Articles of Association.

Voting rights are exercised at the Annual General Assembly in accordance with the regulations concerning the representation and the voting method. The Company abides by the CMB's regulations on voting by proxy. The opportunity for equal, easy and proper voting is provided to all shareholders.

There are no provisions in our Articles of Association regarding the representation of minority shareholders in the management or cumulative voting process. The minority rights are not entitled by the Articles of Association to those with a share smaller than 20% of the capital, and the minority was provided with rights according to the general provisions of the regulation.

### 2.5. Dividend Rights

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

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

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

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

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

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

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Our Company's dividend distributions based on its capital in recent years are as follows.

YEARS	CAPITAL (TL)	% OF DIVIDEND BY ISSUED CAPITAL	AMOUNT OF DISTRIBUTED DIVIDEND (TL)
FROM 2011 PROFIT	24,000,000	%200.00	48,000,000
FROM 2012 PROFIT	24,000,000	%266.67	64,000,000
FROM 2013 PROFIT	24,000,000	%416.67	100,000,000
FROM 2014 PROFIT	24,000,000	%333.33	80,000,000
FROM 2015 PROFIT	24,000,000	%300.00	72,000,000

## 2.6. Transfer of Shares

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

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

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

## SECTION III – PUBLIC DISCLOSURE AND TRANSPARENCY

### 3.1. The Company's Corporate Website and its Content

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

### 3.2. Annual Report

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

## SECTION IV – STAKEHOLDERS

### 4.1. Informing Stakeholders

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

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

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

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

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

### 4.2. Participation of Stakeholders in the Management

Stakeholders may participate in the management’s improvement efforts, actively express their opinions and impart comments in accordance with the procedures implemented within the organization. Such practices include the EFQM model, self-assessment meetings which are attended by all white- and blue- collar employees, and open-door meetings, all of which are developed on the basis of a total quality philosophy and which aim to increase productivity.

The Company also organizes regular meetings where employees, suppliers and customers can express what they require from the Company. In addition, a number of training programs and various surveys, such as the “working life evaluation questionnaire”, are carried out within the scope of the Company’s HR policies.

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

### 4.3. Human Resources Policy

Within the scope of the Company’s human resources policy, all the systems and processes recruitment are set out in written form. At Human Resources, our goal is to ensure continuous improvement and motivation of our workforce, and to maintain their loyalty to the Otokar Family.

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

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

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



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Employees' job descriptions are defined in written and shared with the employees. Practices related to performance reviews and rewards are carried out through the electronic platform Koç@insan. This platform is open to all employees, and serves to inform employees of the Company's goals as well as measure their performance in realizing these goals. The employees can view the realization of goals on the system, and the overall performance of the employee is also assessed and communicated verbally during the yearend performance feedback meetings with the employee's supervisor. These face-to-face meetings between the employee and their supervisor help to clarify the employee's training and development needs. The ensuing development planning process is also carried out on the Koç@insan electronic platform.

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

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

## 4.4. Ethical Rules and Social Responsibility

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

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

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

## SECTION V - BOARD OF DIRECTORS

### 5.1. The Structure and Formation of the Board of Directors

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

Members of the Board of Directors have been elected at the General Assembly on March 28, 2016 to serve until the General Assembly to review the 2016 activities.

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

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

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

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

A total of three nominees for independent members were submitted to the Corporate Governance Committee in 2016. Declarations to become a nominee and the resumes of these individuals shall be evaluated in the meetings of the Corporate Governance Committee and the Board of Directors meetings on February 24, 2016. All of these individuals are determined as nominees to be independent members. All independent board members submitted their declarations of independence to the Corporate Governance Committee. During the 2016 activity period, there were no situations, which contravened their independence.

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

## 5.2. Operating Principles of the Board of Directors

Issues or agendas requiring the resolution of the Board of Directors are arranged and prepared periodically or whenever the need arises. Therefore, the number of Board meetings may vary according to such needs. The Board of Directors drew up 22 resolutions in 2016. Minimum two of the independent members have been made sure to attend the meetings. The Board convenes for meetings whenever the operations of the Company so require. Although there is no dedicated secretariat established to facilitate communication, the Finance Department prepares the meeting agenda, records the resolutions, and monitors the outcome of resolutions.

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

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

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

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

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

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

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

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

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

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



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The committees document all of their activities and keep records. The committees hold meetings as frequently as deemed necessary for working effectively and as defined by their operating principles; and they report the information and results of their work to the board of directors.

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

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

### **Audit Committee**

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

During the Board of Directors Meeting dated April 5, 2016, it was resolved that the Audit Committee would be composed of 2 independent members, with İsmet Böcügöz appointed as the head, and Abdulkadir Öncül appointed as member of the committee.

In 2016, the Audit Committee submitted to the Board of Directors a written report of its views on the choice of independent auditor, its assessments of annual and interim financial statements to be disclosed to the public in terms of their truth, accuracy, and compliance with the accounting principles adopted by the Company as well as the decisions made during Committee meetings held during the year.

### **Corporate Governance Committee**

The Corporate Governance Committee was established following the Board of Directors resolution dated May 25, 2012 to monitor the Company's compliance with the Corporate Governance Principles, to evaluate corporate governance practices and the Corporate Governance Compliance Report, and to oversee the work of the investor relations department. The Committee examines the reasons for cases of no implementation of some of the principles, and makes recommendations to the Board of Directors for the improvement of practices. The Committee's operating principles have been announced on the corporate website. In their meeting on April 5, 2016 the Board of Directors resolved that the Corporate Governance Committee be composed of three members and that İsmet Böcügöz, who is an independent member, be appointed as the head, and Levent Çakıroğlu ve Hüseyin Odabaş as members of the committee; and to also serve as the Nomination Committee and the Remuneration Committee in accordance with the Communiqué.

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

### **Risk Management Committee**

In our Company's Board of Directors Meeting dated July 11, 2012, it was resolved to establish the Risk Management Committee, which would work on early detection of risks that could pose a threat to the Company's presence, development and continuity, and on applying necessary measures to tackle these risks in order to ensure compliance with article 378 of Law 6102 of the Turkish Commercial Code, which entered force in July 2012. During the Board of Directors Meeting dated April 5, 2016, it was decided that the committee would be composed of two members, with Abdulkadir Öncül, who is an independent member, and Kudret Önen to be appointed as the head and as a member of the committee, respectively. The committee convenes at least six times a year.

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

# DECLARATION OF COMPLIANCE WITH THE PRINCIPLES OF CORPORATE GOVERNANCE

## 5.4. Risk Management and the Internal Control Mechanism

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

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

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

## 5.5. The Company's Strategic Goals

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

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

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

### Strategic Goals

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

## 5.6. Remuneration of the Board of Directors

Payments and benefits offered to the Board of Directors and senior executives, as well as the criteria for determining such remuneration, are detailed in our Company's "Remuneration Policy regarding Board Members and Senior Managers", which was presented to the shareholders on the Company's website as part of the "Information Document", three weeks prior to our Annual General Assembly held on March 26, 2016. This was then approved at the Annual General Assembly and entered effect. This policy disclosed to the public on the corporate website and with the annual report will be included in the agenda of the General Assembly Meeting on March 24, 2017, presented to the shareholders for discussion. Total remuneration paid to the Board Members and Senior Managers is evaluated annually by the Corporate Governance Committee and the Board of Directors.

Remunerations provided to the board of directors and the senior management as stated in the notes to our financial statements are not disclosed on the basis of the persons but as the total of remunerations provided to board members and senior management consisting of the general manager and assistant general managers.

The Company does not get involved in transactions that might lead to conflicts of interest such as extending loans to members of the Board of Directors or executives, or providing collateral on their behalf.

## RISK MANAGEMENT AND RISK MANAGEMENT COMMITTEE ACTIVITIES

### A. RISK MANAGEMENT

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

The Risk Management Committee has been established to determine and assess any strategic, operational, financial, legal and other risks which may undermine the Company's presence, growth and continuity; to calculate the impact and probability of such risks, to manage and report these risks in line with the Company's corporate risk profile, execute precautions against detected risks, take these risks into consideration regarding decision making procedures, and also to present suggestions to the Board of Directors concerning the implementation of the necessary measures against such risks and also integration of effective internal control mechanisms.

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

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

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

#### Financial Risks

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

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

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

**Credit Risk:** Kept under control with cash management and liquidity risk follow-up. As part of the Company's policy, no mortgage, pledge or such additional collateral is provided in credit usage.

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

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

#### Strategic Risks

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

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



# RISK MANAGEMENT AND RISK MANAGEMENT COMMITTEE ACTIVITIES

## Operational Risks

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

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

## Legal Risks

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

## B. ACTIVITIES OF THE RISK MANAGEMENT COMMITTEE

In the Board of Directors Meeting of Otokar Otomotiv ve Savunma Sanayi A.Ş. on July 11, 2012, it was resolved to establish the Risk Management Committee, which would work on early detection of risks that could pose a threat to the Company's presence, development and continuity, and on applying necessary measures to tackle these risks in order to ensure compliance with article 378 of Law 6102 of the Turkish Commercial Code, which entered force in July 2012. The committee is chaired by independent Board member, Mr. Abdulkadir Öncül, while the other member of the committee is Board member Mr. Kudret Önen.

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

The committee has met 7 times in 2016. The committee evaluates the Company's principles for the Risk Management System and Risk Reporting, examines Risk Reports prepared periodically and expresses its views on measures that are deemed necessary to address areas where there is non-compliance with the limits stipulated in the Risk Management System. Reporting activities and the committee's assessments are recorded as minutes of the meeting, and duly presented to the Board of Directors.

## C. INTERNAL CONTROL SYSTEM AND INTERNAL AUDITS

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

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

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

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

Otokar Otomotiv ve Savunma Sanayi A.Ş. has not been subjected to any Private or Public Inspection in 2016.

# CORPORATE GOVERNANCE

## 2016 REPORT ON AFFILIATED COMPANIES

The report, which explains our relations with major shareholders within the scope of Turkish Commercial Code (TTK) article 199 was approved in Board of Directors meeting, held on February 21, 2016. The result of the report is below:

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

The following was expressed in the report which was prepared by Otokar Otomotiv ve Savunma Sanayi A.Ş.’s Board of Directors on February 21, 2016: “The Board of Directors of Otokar Otomotiv ve Savunma Sanayi A.Ş. reached the conclusion that, in all transactions conducted in 2016 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.”

## REVIEW OF THE BOARD COMMITTEES' ACTIVITIES AND THEIR EFFECTIVENESS

All of the Board Committees have fulfilled the duties and obligations they are responsible for in accordance with Corporate Governance Principles and their own regulations; and have convened according to the annual meeting schedules in 2016. Information of the Committees' activities and the outcomes of the meetings held throughout the year have been reported to the Board of Directors.

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

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

Detailed information on the structure and activities of the Committees has been included in the "Corporate Governance Principles Compliance Report" section of this Report (See p. 70).



# CORPORATE GOVERNANCE

## LEGAL DISCLOSURES

### Report Period:

01.01.2016-31.12.2016

### Company Title:

Otokar Otomotiv ve Savunma Sanayi. A.Ş.

### Trade Registry / Number:

İstanbul / 83467

### Ownership Structure and Capital Distribution:

Registered Capital Ceiling  
Paid-in Capital

: TL 100,000,000  
: TL 24,000,000

Shareholders	Share amount (TL)	Share (%)
Koç Holding A.Ş.	10,722,750	45
Ünver Holding A.Ş.	5,954,944	25
Other*	7,322,306	30
<b>Total</b>	<b>24,000,000</b>	<b>100</b>

\* Includes free float

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

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

### Stock Information

BIST Ticker Symbol : OTKAR  
Reuters Ticker Symbol : OTKAR.IS  
Bloomberg Ticker Symbol : OTKAR.TI  
IPO Date : 24.04.1995

### Headquarters Address:

Aydınevler Mah. Dumlupınar Cad.  
No: 58 A Blok 34854 Küçükyalı İstanbul

### Factory Address:

Atatürk Cad. No: 6 54580 Arifiye Sakarya

### Phone:

+90 216 489 29 50

### Website:

[www.otokar.com.tr](http://www.otokar.com.tr)

## LEGAL DISCLOSURES

### **Preferential Shares and Voting Rights of Shares**

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

### **Organizational Changes within the Year**

There were no significant organizational changes within the year.

### **Legal Action Taken Against the Company**

There was no important legal action taken against the company.

### **Legislative Changes that Could Affect the Company's Activities Significantly**

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

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

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

### **Private and Public Audits in 2016**

There were no private or public audits completed in 2016.

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

None.

### **Implementations of Resolutions of the Ordinary General Assembly**

The resolutions reached at the Ordinary General Assembly, dated 28<sup>th</sup> March, 2016, have been implemented.

### **Extraordinary General Assembly Meetings Held During the Year**

None.

### **Information on the permission granted to shareholders who have control over the management, to Board Members who hold shares in the Company, to senior managers, and their spouses, in-laws and blood relatives up to second kin, to conduct transactions or compete with the Company and its affiliates which could lead to conflicts of interest**

None.

# REPORTS AND FINANCIAL STATEMENTS



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# OTOKAR OTOMOTİV VE SAVUNMA SANAYİ A.Ş. REPORT BY THE COMMITTEE RESPONSIBLE FROM AUDIT

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

We have convened to examine and provide opinions concerning the consolidated financial tables pertaining to the period between 1 January - 31 December, 2016, which was prepared by Otokar Otomotiv ve Savunma Sanayi A.Ş. management and which comply with the Turkish Accounting Standards/Turkish Financial Reporting Standards ("TMS/ TFRS) and formats determined by the CMB in accordance with the Capital Market Board's "Financial Reporting in Capital Market Communiqué" (Communiqué) numbered II.14.1, and the independent auditor's report, which was prepared by PwC Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş. (A Member of PricewaterhouseCoopers).

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. When necessary, the views of the independent auditor and the engagement director of the audit company and the company's responsible executives were sought.

Within the scope of information submitted to us and as a result of our evaluations, we have reached the view that the consolidated financial statements pertaining to the 1 January - 31 December, 2016 period comply with the accounting principles that the company follows, and are accurate and true. We submit these financial statements for the approval of the Board of Directors.

Sincerely,

İstanbul, February 9, 2017

## THE COMMITTEE RESPONSIBLE FOR THE AUDIT



İsmet BÖCÜGÖZ  
Board Member



Abdulkadir ÖNCÜL  
Board Member



## INDEPENDENT AUDITOR'S REPORT

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

### Report on the Consolidated Financial Statements

1. We have audited the accompanying consolidated financial statements of Otokar Otomotiv ve Savunma Sanayi A.Ş. (the "Company") and its subsidiaries (together will be referred as the "Group"), which comprise the consolidated balance sheet as at 31 December 2016 and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

#### *Management's Responsibility for the Consolidated Financial Statements*

2. The Group management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Turkish Accounting Standards 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.

#### *Independent Auditor's Responsibility*

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

An independent audit involves performing procedures to obtain evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on independent auditor's professional judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to error or fraud. In making those risk assessments, the independent auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An independent audit includes also evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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



### *Opinion*

4. In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Otokar Otomotiv ve Savunma Sanayi A.Ş. and its subsidiaries as at 31 December 2016 and its financial performance and cash flows for the year then ended in accordance with Turkish Accounting Standards.

### **Other Responsibilities Arising From Regulatory Requirements**

5. In accordance with subparagraph 4 of Article 398 of the Turkish Commercial Code ("TCC") No: 6102; auditor's report on the early risk identification system and committee has been submitted to the Company's Board of Directors on 9 February 2017.
6. In accordance with subparagraph 4 of Article 402 of the TCC; no significant matter has come to our attention that causes us to believe that the Company's bookkeeping activities for the period 1 January - 31 December 2016 is not in compliance with the code and provisions of the Company's articles of association in relation to financial reporting.
7. In accordance with subparagraph 4 of Article 402 of the TCC; the Board of Directors submitted to us the necessary explanations and provided required documents within the context of audit.

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

Beste Gücüm, SMMM  
Partner

Istanbul, 9 February 2017

**OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ**

CONSOLIDATED BALANCE SHEET AS OF 31 DECEMBER 2016  
(Amounts expressed in Turkish Lira ("TL") unless otherwise indicated.)

		(Audited)	(Audited)
	Notes	31 December 2016	31 December 2015
<b>Assets</b>			
<b>Current Assets</b>			
Cash and cash equivalents	4	38,598,352	58,736,065
Trade receivables	8	388,658,136	344,453,922
Due from related parties	27	29,436,843	106,906,185
Due from other parties	8	359,221,293	237,547,737
Other receivables	9	19,588	2,090
Due from customers on contract works	11	245,830,180	-
Inventories	10	493,870,356	427,975,544
Derivative financial instruments	7	51,800	146,636
Prepaid expenses	17	176,765,729	122,691,548
Other current assets	17	106,137,493	65,687,162
<b>Total current assets</b>		<b>1,449,931,634</b>	<b>1,019,692,967</b>
<b>Non-current assets</b>			
Trade receivables	8	9,173,544	100,295,845
Other receivables	9	234,084	65,853
Due from customers on contract works	11	-	188,278,141
Financial investments	5	41,398	239,280
Property, plant and equipment	12	105,101,885	103,757,339
Intangibles	13	181,931,713	155,419,078
Deferred tax asset	25	37,853,384	37,313,671
<b>Total non-current assets</b>		<b>334,336,008</b>	<b>585,369,207</b>
<b>Total assets</b>		<b>1,784,267,642</b>	<b>1,605,062,174</b>

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

# OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ

CONSOLIDATED BALANCE SHEET AS OF 31 DECEMBER 2016  
(Amounts expressed in Turkish Lira ("TL") unless otherwise indicated.)

		(Audited) 31 December 2016	(Audited) 31 December 2015
	Notes	31 December 2016	31 December 2015
<b>Liabilities</b>			
<b>Current liabilities</b>			
Short-term borrowings	6	2,414	375,402
Short-term portion of long-term borrowings	6	4,669,400	105,607,359
Trade payables	8	401,144,983	165,819,465
Due to related parties	27	11,016,714	27,169,350
Due to other parties	8	390,128,269	138,650,115
Employee benefit obligations	17	21,439,674	18,137,584
Other payables, third parties	9	37,958,298	36,228,439
Current income tax liabilities	25	-	2,093,694
Deferred income	17	200,624,150	176,292,725
Government grants	14	2,155,912	2,056,306
Short-term provisions	15	387,143,992	276,300,155
Provisions for employee benefits		8,490,684	6,651,542
Other provisions		378,653,308	269,648,613
Other current liabilities	17	11,200,087	1,978,569
<b>Total current liabilities</b>		<b>1,066,338,910</b>	<b>784,889,698</b>
<b>Non-current liabilities</b>			
Borrowings	6	425,447,263	509,295,075
Government grants	14	3,381,725	5,570,470
Long-term provisions		38,387,961	31,755,416
Provisions for employee benefits	16	28,087,775	22,321,490
Other provisions	15	10,300,186	9,433,926
Deferred income	17	7,753,691	28,312,416
<b>Total non-current liabilities</b>		<b>474,970,640</b>	<b>574,933,377</b>
<b>Total liabilities</b>		<b>1,541,309,550</b>	<b>1,359,823,075</b>
<b>Equity</b>			
Paid-in share capital	18	24,000,000	24,000,000
Inflation adjustment on share capital	18	52,743,030	52,743,030
Restricted reserves	18	54,014,610	46,838,147
Accumulated other comprehensive income and expense that will not be reclassified to statement of profit or loss	18	(4,985,845)	(3,859,283)
Defined benefit plans remeasurement losses	18	(4,985,845)	(3,859,283)
Accumulated other comprehensive income and expense that may be reclassified to statement of profit or loss		1,328,609	-
Currency translation differences		1,328,609	-
Retained earnings	18	46,131,822	46,011,054
Net profit for the period	18	69,725,866	79,506,151
<b>Total equity</b>		<b>242,958,092</b>	<b>245,239,099</b>
<b>Total liabilities and equity</b>		<b>1,784,267,642</b>	<b>1,605,062,174</b>

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

**OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ**  
**STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED**  
**1 JANUARY - 31 DECEMBER 2016**  
(Amounts expressed in Turkish Lira ("TL") unless otherwise indicated.)

		(Audited)	(Audited)
	Notes	1 January – 31 December 2016	1 January – 31 December 2015
Net Sales	19	1,634,514,698	1,433,967,887
Cost of Sales (-)	19	(1,224,669,421)	(1,063,026,461)
<b>GROSS PROFIT</b>		<b>409,845,277</b>	<b>370,941,426</b>
Marketing expenses (-)	20	(189,512,567)	(179,773,869)
General administrative expenses (-)	20	(63,132,410)	(49,337,559)
Research and development expenses (-)	20	(36,176,104)	(35,321,089)
Other operating income	22	422,908,979	225,643,639
Other operating expenses (-)	22	(379,289,741)	(192,492,080)
<b>OPERATING PROFIT</b>		<b>164,643,434</b>	<b>139,660,468</b>
Income from investing activities		86,627	1,479,803
Expense from investing activities (-)		-	-
<b>OPERATING INCOME BEFORE FINANCIAL EXPENSES</b>		<b>164,730,061</b>	<b>141,140,271</b>
Financial income	23	15,517,026	12,390,802
Financial expense (-)	24	(112,166,724)	(65,690,770)
<b>PROFIT BEFORE TAX</b>		<b>68,080,363</b>	<b>87,840,303</b>
Tax income/expense from continued operations			
Current tax income/(expense)	25	1,387,431	(6,663,642)
Deferred tax income/(expense)	25	258,072	(1,670,510)
<b>PROFIT FOR THE PERIOD</b>		<b>69,725,866</b>	<b>79,506,151</b>
<b>Items that will not be reclassified to statement of profit or loss</b>			
Remeasurement (losses)/gains		(1,408,203)	1,756,965
Deferred tax income/(expense)		281,641	(351,393)
<b>Items that may be reclassified to statement of profit or loss</b>			
Currency translation differences		1,391,399	-
<b>Other comprehensive income</b>		<b>264,837</b>	<b>1,405,572</b>
<b>TOTAL COMPREHENSIVE INCOME</b>		<b>69,990,703</b>	<b>80,911,723</b>
<b>Earnings per share (Piaster)</b>	<b>26</b>	<b>0.291</b>	<b>0.331</b>

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



**OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ**  
**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2016**  
(Amounts expressed in Turkish Lira ("TL") unless otherwise indicated.)

				Accumulated other comprehensive income and expense that will not be reclassified to statement of profit or loss	Accumulated other comprehensive income and expense that may be reclassified to statement of profit or loss				
	Paid in share capital	Inflation adjustments	Restricted reserves	Remeasurement losses on defined benefit plans	Currency translation differences	Retained earnings	Net income for the period	Total equity	
Previous Period	Opening Balances	24,000,000	52,743,030	38,958,147	(5,264,855)	-	61,119,856	72,771,198	244,327,376
	Transfers	-	-	7,880,000	-	-	64,891,198	(72,771,198)	-
	Dividends paid	-	-	-	-	-	(80,000,000)	-	(80,000,000)
	Total comprehensive income	-	-	-	1,405,572	-	-	79,506,151	80,911,723
	Closing Balances	24,000,000	52,743,030	46,838,147	(3,859,283)	-	46,011,054	79,506,151	245,239,099
Current Period	Opening Balances	24,000,000	52,743,030	46,838,147	(3,859,283)	-	46,011,054	79,506,151	245,239,099
	Subsidiary subject to consolidation (Note 2)	-	-	96,463	-	(62,790)	(2,715,274)	2,409,891	(271,710)
	Transfers	-	-	7,080,000	-	-	74,836,042	(81,916,042)	-
	Dividends paid	-	-	-	-	-	(72,000,000)	-	(72,000,000)
	Total comprehensive income	-	-	-	(1,126,562)	1,391,399	-	69,725,866	69,990,703
	Closing Balances	24,000,000	52,743,030	54,014,610	(4,985,845)	1,328,609	46,131,822	69,725,866	242,958,092

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

**OTOKAR OTOMOTİV VE SAVUNMA SANAYİ ANONİM ŞİRKETİ**  
**CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2016**  
(Amounts expressed in Turkish Lira ("TL") unless otherwise indicated.)

		(Audited)	(Audited)
	Notes	1 January – 31 December 2016	1 January – 31 December 2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		<b>401,395,696</b>	<b>(81,231,773)</b>
Net profit for the period		69,725,866	79,506,151
<b>Adjustments to reconcile income before taxes to net cash flows from operating activities:</b>		<b>187,027,925</b>	<b>141,539,309</b>
Depreciation and amortization	12, 13	49,193.235	48.262.812
<b>Adjustments in relation to impairment:</b>		<b>3.397.410</b>	<b>2.225.324</b>
- Provision for doubtful receivables	8	3.486.467	2.924.718
- Provision for inventories	10, 21	(89.057)	(699.394)
<b>Adjustments in relation to provision:</b>		<b>41.231.992</b>	<b>60.268.110</b>
- Provision for employee benefits	16, 21	7.465.099	6.625.936
- Warranty provision expenses	15, 21	33.766.893	53.642.174
<b>Adjustments in relation to interest income and expenses:</b>		<b>77.231.360</b>	<b>39.649.586</b>
- Interest income on time deposits	23, 27	(527.484)	(768.391)
- Interest expense on borrowings	24, 27	77.758.844	40.417.977
<b>Adjustments in relation to unrealised foreign exchange gains and losses</b>		<b>11.905.290</b>	<b>(1.578.100)</b>
<b>Adjustments in relation to fair value gains and losses</b>		<b>4.155.265</b>	<b>(5.808.620)</b>
- Fair value losses/(gains) on financial derivative instruments, net		4.155.265	(5.808.620)
<b>Adjustments in relation to gains or losses on sales of property, plant and equipment</b>		<b>(86.627)</b>	<b>(1.479.803)</b>
- Gain on sale of property, plant and equipments		(86.627)	(1.479.803)
<b>Changes in net working capital</b>		<b>174.411.089</b>	<b>(269.487.353)</b>
<b>Change in trade receivables</b>		<b>33.100.773</b>	<b>(39.154.445)</b>
<b>Change in due from customers on contract works</b>		<b>(57.552.039)</b>	<b>(58.423.752)</b>
<b>Change in inventories</b>		<b>(56.908.582)</b>	<b>(163.113.722)</b>
<b>Change in trade payables</b>		<b>232.546.401</b>	<b>84.295.469</b>
<b>Other changes</b>		<b>23.224.536</b>	<b>(93.090.903)</b>
- Changes in other operating assets		(94.939.370)	(94.968.127)
- Changes in other operating liabilities		118.163.906	1.877.224
<b>Cash flows from operations</b>		<b>431.164.880</b>	<b>(48.441.893)</b>
<b>Payments in relation to employee benefits</b>	16	<b>(3.107.017)</b>	<b>(3.516.672)</b>
<b>Payments in relation to other provisions</b>	15	(28.212.870)	(40.426.284)
<b>Deductions/(payments) in relation to income tax</b>		1.387.431	3.764.204
<b>Other cash collections/(payments)</b>		163.272	7.388.872
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		<b>(76.629.399)</b>	<b>(52.251.862)</b>
<b>Cash outflows from purchases due to obtaining control of subsidiaries</b>		<b>(41.398)</b>	<b>-</b>
<b>Proceeds from sale of property, plant and equipment and intangible assets</b>		<b>1.155.278</b>	<b>3.054.451</b>
- Proceeds from sale of property, plant and equipment		1.155.278	3.054.451
<b>Cash outflows due to purchase of property, plant and equipment and intangible assets</b>		<b>(77.743.279)</b>	<b>(55.306.313)</b>
- Purchase of property, plant and equipment	12	(14.334.439)	(6.350.032)
- Purchase of intangible assets	13	(63.408.840)	(48.956.281)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		<b>(346.295.409)</b>	<b>147.692.003</b>
<b>Cash inflow due to borrowings</b>		<b>854.568.274</b>	<b>661.248.708</b>
- Proceeds from bank borrowings		854.568.274	661.248.708
<b>Cash outflow due to repayment of borrowings</b>		<b>(1.057.550.988)</b>	<b>(406.518.354)</b>
- Repayments of borrowings		(1.057.550.988)	(406.518.354)
Dividends paid		(72.000.000)	(80.000.000)
Interest paid		(71.840.179)	(27.806.742)
Interest received		527.484	768.391
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS BEFORE THE EFFECT OF CURRENCY TRANSLATION DIFFERENCES</b>		<b>(21,529,112)</b>	<b>14,208,368</b>
<b>Currency translation difference on cash and cash equivalents</b>		<b>1.391.399</b>	<b>-</b>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>		<b>(20.137.713)</b>	<b>14.208.368</b>
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD</b>	4	<b>58.736.065</b>	<b>44.527.697</b>
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD</b>	4	<b>38.598.352</b>	<b>58.736.065</b>

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

#### 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, armoured 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:

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

In prior years, "Otokar Europe SAS" operations did not materially affect the financial statements of Otokar and accordingly; it had not been subject to consolidation and had been presented at historical cost value under financial investments. Since the magnitude of the operations of Otokar Europe SAS has reached to have material impact on the financial statements of the Company, Otokar has started to consolidate Otokar Europe SAS by the beginning of this year and prepared consolidated financial statements at 31 December 2016.

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

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

The Group has 2,297 personnel as of 31 December 2016 (31 December 2015: 2,105).

This consolidated financial statements for the year ended 31 December 2016 were authorized for issue and signed with the approval of the Internal Audit Committee by the Board of Directors of Otokar on 9 February 2017. The accompanying consolidated financial statements may be amended by the General Assembly.

Otokar is registered to the Capital Market Board ("CMB") and its shares are listed on the Borsa Istanbul A.Ş. ("BIST") since 1995. As of 31 December 2016 27.45% of the shares are quoted on the BIST.

As of 31 December 2016, 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
	<b>100,00</b>

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

Otokar Otomotiv ve Savunma Sanayi ve 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 FINANCIAL STATEMENTS**

### **2.1 Basis of presentation**

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

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

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

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

### **Functional and presentation currency**

Functional and presentation currency of the Company is TL.

In accordance with the CMB's resolution dated 17 March 2005 and numbered 11/367, the financial statements were restated in accordance with International Accounting Standards (IAS) 29 (Financial Reporting in Hyperinflationary Economies) for the last time as of 31 December 2014, since the objective conditions which require the application of restatement of financial statements have not been realized and that based on the existing data CMB has foreseen that the indications whether such conditions are going to be realized in the future is no longer probable. Therefore, non-monetary assets, liabilities and equity items including the share capital as of 31 December 2015 and 31 December 2014 have been restated by applying the relevant conversion factors through 31 December 2015 and carrying additions after 31 December 2004 at their nominal values.



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

### **2.2 Accounting errors and changes in accounting estimates**

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

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

### **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.

In prior years, "Otokar Europe SAS" operations did not materially affect the financial statements of Otokar and accordingly; it had not been subject to consolidation and had been presented at historical cost value under financial investments. Since the magnitude of the operations of Otokar Europe SAS has reached to have material impact on the financial statements of the Company, Otokar has started to consolidate Otokar Europe SAS by the beginning of this year and prepared consolidated financial statements at 31 December 2016.

In prior year, the Group has offset its foreign exchange gains and losses from operating activities under other operating income and expenses if they had the same nature, however, after a change in the accounting policy in 2016, the Group has decided not to offset and decided to present its foreign exchange gains and losses from operating activities under other operating income and expenses as gross amounts. The Group had TL 101,264,349 of other operating income and TL 68,112,790 of other operating expense in its financial statements at 31 December 2015.

#### **a. Standards, amendments and interpretations applicable as at 31 December 2016**

Annual improvements 2014, effective from annual periods beginning on or after 1 January 2016. These set of amendments impacts 2 standards:

- TFRS 7, 'Financial instruments: Disclosures' (with consequential amendments to TFRS 1)
- TMS 19, 'Employee benefits' regarding discount rates

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

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

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

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

### **b. Standards, amendments and interpretations effective after 1 January 2017**

Amendments to IAS 7 'Statement of cash flows' on disclosure initiative, effective from annual periods beginning on or after 1 January 2017. These amendments introduce an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities. The amendment is part of the IASB's Disclosure Initiative, which continues to explore how financial statement disclosure can be improved.

Amendments IAS 12 'Income Taxes', effective from annual periods beginning on or after 1 January 2017. The amendments clarify the accounting for deferred tax where an asset is measured at fair value and that fair value is below the asset's tax base. It also clarifies certain other aspects of accounting for deferred tax assets.

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

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

Amendment to IFRS 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.

Annual improvements 2014-2016, effective from annual periods beginning on or after 1 January 2018. These amendments impact 2 standards:

- IFRS 1, 'First-time adoption of IFRS', regarding the deletion of short-term exemptions for first-time adopters regarding IFRS 7, IAS 19, and IFRS 10 effective 1 January 2018.
- IFRS 12, 'Disclosure of interests in other entities' regarding clarification of the scope of the standard. These amendments should be applied retrospectively for annual periods beginning on or after 1 January 2017.

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

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.

The Group has assessed the impacts of these changes to their operations and decided to apply as at their effective dates. The Group did not early adopt any of the standards.

### 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 IAS 11 "Construction contracts" assumptions are made related to total cost of and profitability of projects.
- b) Deferred tax asset is recognised to the extent that taxable profit will be available against which the deductible temporary differences can be utilized. When taxable profit is probable, deferred tax asset is recognised for all deductible temporary differences. For the year ended 31 December 2016, since the Management believed the indicators demonstrating that the Group will have taxable profits in the foreseeable future- are reliable, deferred tax asset has been recognized.
- c) The Group determines warranty provision by considering the past warranty expenses and remaining warranty period per vehicle.
- d) The Group has made certain important assumptions based on experiences of technical personnel in determining useful economic lives of property, plant and equipment and intangible assets.

### 2.5 Summary of significant accounting policies

#### Group accounting

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

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

### *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 2016 and 2015:

Subsidiaries	2016		2015	
	Direct and indirect ownership (%)	Proportion of effective interest (%)	Direct and indirect ownership (%)	Proportion of effective interest (%)
Otokar Europe SAS (*)	100.00	100.00	100.00	100.00
Otokar Land Systems LLC (**)	100.00	100.00	-	-

(\*) In prior years, "Otokar Europe SAS" operations did not materially affect the financial statements of Otokar and accordingly; it had not been subject to consolidation and had been presented at historical cost value under financial investments. Since the magnitude of the operations of Otokar Europe SAS has reached to have material impact on the financial statements of the Company, Otokar has started to consolidate Otokar Europe SAS by the beginning of this year and prepared consolidated financial statements at 31 December 2016.

(\*\*) Since financial activities of Otokar Land System LLC has not started, the investment was presented under financial investments.



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

### **Revenue recognition**

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

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

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

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

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

### **Construction contract activities**

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

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

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

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

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

### **Related parties**

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

### **Inventories**

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

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

Finished goods and work-in progress -cost of direct materials and 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).

## NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (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	30 years
Machinery and equipment	3-15 years
Vehicles	9 years
Furniture and fixtures	5-15 years
Leasehold improvements	5 years

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

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

### Intangible assets

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

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

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

### **Research and development expenses**

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

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

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

existence of the ability to measure reliably the expenditure attributable to the intangible asset during its development.

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

### **Investment, research and development incentives**

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

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

### **Income taxes**

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

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

Furthermore, provisional corporate taxes are paid at 20% over profits declared for interim periods in order to be deducted from the final corporate tax.

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



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

### **Income taxes (Continued)**

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

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

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

### **Employee benefits**

#### **a) Defined benefit plans:**

Employment termination benefits

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

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

### **Foreign currency transactions**

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

### **Provisions**

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

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

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

### **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.

### **Operating leases**

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

### **Warranty expenses**

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

### **Financial instruments**

#### **Financial assets**

The Group's financial assets comprise cash and cash equivalents, trade receivables, receivables from related parties, financial investments and other receivables. Financial liabilities comprise financial loans, trade payables, due to related parties and other payables.

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

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

### **Cash and cash equivalents**

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

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

### **Trade receivables**

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

A credit risk provision for trade receivables is established if there is objective evidence that the 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 which allows the Group to transfer the credit risk of these receivables and prevents the Group to sale or provide the receivables as collateral.

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

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

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

### **Trade payables**

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

## **NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (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.

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.



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

### *Recognition and derecognition of financial assets and liabilities*

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

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

### *Foreign currency transactions*

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

### **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.

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

### **Impairment of non-financial assets**

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

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

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

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

### **Borrowing costs**

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

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

### **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 the Chief Executive Decision Maker (composed of key management, board members, general manager and assistant general managers) does not monitor cost of sales, operating expenses and financial expenses, the product groups are only monitored based on revenue (Note 19). Thus, segment reporting is not performed.

#### NOTE 4 - CASH AND CASH EQUIVALENTS

	31 December 2016	31 December 2015
<b>Banks</b>		
- demand deposits	11,535,670	15,239
- time deposits	26,059,194	56,506,362
Cheques and notes receivable	918,139	2,119,198
Other	85,349	95,266
<b>Total</b>	<b>38,598,352</b>	<b>58,736,065</b>

As of 31 December 2016, TL 17,479,194 of the total amount of time deposits amounting to TL 26,059,194 is denominated in foreign currency and the annual effective interest rate is 0.10% and has a maturity of 3 days. The remaining annual effective interest rate of TL 8,580,000 is 8.25% and has a maturity of 3 days.

As of 31 December 2015, TL 27,326,362 of the total time deposits amounting to TL 56,506,362 is denominated in foreign currency and the annual effective interest rate is 0.24% and has a maturity of 4 days. The remaining annual effective interest rate of TL 29,180,000 is 14.05% 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 2016, the Group has restricted bank deposit amounting to TL 795 (31 December 2015: TL 795).

#### NOTE 5 - FINANCIAL INVESTMENTS

The Company has a subsidiary named "Otokar Land Systems LLC" with paid in capital of AED 50,000 (TL 41,398), established in United Arab Emirates for the purpose of organizing export activities and increasing export sales. Since Otokar Land Systems LLC's operations does not materially affect the financial statements, it has not been subject to consolidation and has been presented at historical cost value.

## NOTE 6 - BORROWINGS

31 December 2016	Maturities	Interest rate (%)	TL
<b>Short-term bank borrowings (*)</b>			
Denominated in TL (***)	2 January 2017	-	2,414
			<b>2,414</b>
<b>Principals and interest accruals on the short-term portion of long-term borrowings (*)</b>			
Denominated in TL		12.60-14.65	4,178,278
Denominated in EUR		2.90	491,122
			<b>4,669,400</b>
	Maturities	Interest rate (%)	TL
<b>Long-term bank borrowings (*) (**)</b>			
Denominated in TL	15 August 2018 - 12 November 2018	12.60 - 14.65	351,249,263
Denominated in EUR	28 September 2018	2.90	74,198,000
			<b>425,447,263</b>
(*) Bearing fixed interest rate.			
(**) Weighted average maturity days of long-term borrowings are 632 days.			
(***) Interest free loan for the Social Security Institution payments.			
31 December 2015	Maturities	Interest rate (%)	TL
<b>Short-term bank borrowings (*)</b>			
Denominated in TL (***)	4 January 2016	-	375,402
			<b>375,402</b>
<b>Principals and interest accruals on the short-term portion of long-term borrowings (*)</b>			
Denominated in TL		8.09-14.65	105,178,069
Denominated in EUR		2.65	429,290
			<b>105,607,359</b>
	Maturities	Interest rate (%)	TL
<b>Long-term bank borrowings (*) (**)</b>			
Denominated in TL	14 April 2017- 3 September 2018	11.55-14.65	351,115,051
Denominated in EUR	10 February 2017- 21 September 2017	2.65-2.90	158,180,024
			<b>509,295,075</b>
(*) Bearing fixed interest rate			
(**) Weighted average maturity days of long-term borrowings are 730 days.			
(***) Interest free loan for the Social Security Institution payments.			

As of 31 December 2016, the Group has not provided any guarantees for the borrowings (31 December 2015: none).



#### 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
<b>31 December 2016:</b>			
Forward transactions	25,397,200	12 January 2017	51,800
Short-term derivative financial instruments	25,397,200		51,800
<b>Total derivative financial instruments</b>	<b>25,397,200</b>		<b>51,800</b>

	Contract amount	Previous period contract maturity	Fair value assets
<b>31 December 2015:</b>			
Forward transactions	55,435,650	7 January 2016 - 14 January 2016	146,636
Short-term derivative financial instruments	55,435,650		146,636
<b>Total derivative financial instruments</b>	<b>55,435,650</b>		<b>146,636</b>

#### NOTE 8 - TRADE RECEIVABLES AND PAYABLES

##### Trade receivables

	31 December 2016	31 December 2015
Trade receivables, net	258,579,445	113,905,306
Notes receivables, net	129,551,413	148,699,225
	<b>388,130,858</b>	<b>262,604,531</b>
Less: provision for doubtful receivables	(28,909,565)	(25,056,794)
<b>Short-term trade receivables</b>	<b>359,221,293</b>	<b>237,547,737</b>
Trade receivables from related parties (Note 27)	29,436,843	106,906,185
<b>Short-term trade receivables</b>	<b>388,658,136</b>	<b>344,453,922</b>
Long-term trade receivables, net	-	87,065,478
Long-term notes receivable, net	9,173,544	13,230,367
<b>Long-term trade receivables</b>	<b>9,173,544</b>	<b>100,295,845</b>

As of 31 December 2016, the average maturity of trade receivables is between 60-90 days (excluding notes receivables). (31 December 2015 60-90 days.)

#### NOTE 8 - TRADE RECEIVABLES AND PAYABLES (Continued)

As of 31 December 2016, trade receivables amounting to TL 451,646,689 (31 December 2015: TL 34,728,321) were subject to factoring arrangement. According to this arrangement, the Group has transferred the credit risk in relation to this receivables against cash.

As of 31 December 2016 and 2015, 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 armoured vehicle sales. As of 31 December 2016, the total trade receivable from dealers amounting to TL 79,884,163 (31 December 2015: TL 109,952,277), after provision provided for doubtful receivables, has been secured by mortgages and guarantees at the amount of TL 134,631,000 (31 December 2015: TL 108,683,872). 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 2016	Trade receivables
1- 30 day past due	-
1- 3 month past due	-
3- 12 month past due	-
1- 5 year past due	218,615
Over 5 years past due	-
<b>Total</b>	<b>218,615</b>
<b>Amount secured with guarantees</b>	<b>218,615</b>
31 December 2015	Trade receivables
1- 30 day past due	-
1- 3 month past due	-
3- 12 month past due	-
1- 5 year past due	187,248
Over 5 years past due	-
<b>Total</b>	<b>187,248</b>
<b>Amount secured with guarantees</b>	<b>187,248</b>

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

#### NOTE 8 - TRADE RECEIVABLES AND PAYABLES (Continued)

The movement of the provision for doubtful receivables for the years ended 31 December 2016 and 2015 are as follows:

	2016	2015
As of 1 January	25,056,794	22,526,772
Impact of consolidation (*)	916,092	-
Collection	(549,788)	(394,696)
Currency translation difference	153,460	-
Increase during the period	3,333,007	2,924,718
<b>As of 31 December</b>	<b>28,909,565</b>	<b>25,056,794</b>

(\*) Please see Note 2 for details.

#### Trade payables

	31 December 2016	31 December 2015
Trade payables, net	389,798,869	138,397,815
Notes payables, net	329,400	252,300
<b>Short-term other trade payables</b>	<b>390,128,269</b>	<b>138,650,115</b>
Trade payables to related parties (Note 27)	11,016,714	27,169,350
<b>Short-term trade payables</b>	<b>401,144,983</b>	<b>165,819,465</b>

As of 31 December 2016, average payment term for trade payables is 45-60 days (31 December 2015: 45-60 days).

As of 31 December 2016 and 2015, 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 2016	31 December 2015
Deposits and guarantees given	8,305	-
Due from personnel	11,283	2,090
<b>Total</b>	<b>19,588</b>	<b>2,090</b>

##### Other long-term receivables

	31 December 2016	31 December 2015
Deposits and guarantees given	234,084	65,853
<b>Total</b>	<b>234,084</b>	<b>65,853</b>

##### Other short-term payables

	31 December 2016	31 December 2015
Other miscellaneous payables	37,958,298	36,228,439
<b>Total</b>	<b>37,958,298</b>	<b>36,228,439</b>

As explained in Note 15, TL 36,168,636 (31 December 2015: TL 31,707,241) 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 R&D costs has not been finalised.



#### NOTE 10 - INVENTORIES

	31 December 2016	31 December 2015
Raw material	182,574,412	127,778,773
Semi-finished goods	73,211,994	14,932,656
Finished goods	116,973,388	148,982,557
Merchandise goods	67,684,094	58,112,743
Goods in transit	54,132,774	78,964,178
Impairment for inventories (*)	(706,306)	(795,363)
<b>Total</b>	<b>493,870,356</b>	<b>427,975,544</b>

(\*) TL 100,254 of impairment is related to finished goods (31 December 2015: TL 118,113) and TL 606,052 is related to merchandises (31 December 2015: TL 677,250). The impairment has been accounted for under cost of sales.

The movements of impairment for inventories in 2016 and 2015 are as follows:

	2016	2015
1 January	(795,363)	(1,494,757)
Reversal of provision (Note 21)	89,057	699,394
<b>31 December</b>	<b>(706,306)</b>	<b>(795,363)</b>

#### NOTE 11 - DUE FROM CUSTOMERS ON CONTRACT WORKS

Receivable from uncompleted contracts is TL 245,830,180 as of 31 December 2016 (31 December 2015: TL 188,278,141) after offsetting with short-term advances received.

As of 31 December 2016, the short-term advances received by the Group related with ongoing projects which amounts to TL 32,406,735 was included under deferred revenues in the consolidated financial statements (31 December 2015: TL 79,705,827).

## NOTE 12 - PROPERTY, PLANT AND EQUIPMENT

Movements of property, plant and equipment and related accumulated depreciation for the years ended 31 December 2016 and 2015 are as follows:

	1 January 2016	Consolidation impact (*)	Additions	Currency translation difference	Disposals	Transfers	31 December 2016
<b>Cost:</b>							
Land	37,456,746	-	-	-	-	-	37,456,746
Land improvements	11,952,934	-	7,102	-	-	10,274	11,970,310
Buildings	60,539,783	-	-	-	-	93,543	60,633,326
Machinery and equipment	99,172,937	504,742	5,146,553	84,553	-	1,267,005	106,175,790
Motor vehicles	8,427,782	-	2,400,830	-	(1,215,604)	-	9,613,008
Furniture and fixtures	28,453,405	147,768	4,608,323	24,754	-	751,871	33,986,121
Leasehold improvements	2,099,062	-	13,644	-	(185,970)	188,966	2,115,702
Construction in process	964,394	-	2,048,680	-	-	(2,317,149)	695,925
	<b>249,067,043</b>	<b>652,510</b>	<b>14,225,132</b>	<b>109,307</b>	<b>(1,401,574)</b>	<b>(5,490)</b>	<b>262,646,928</b>
<b>Accumulated depreciation:</b>							
Land improvements	6,825,653	-	653,671	-	-	-	7,479,324
Buildings	34,712,739	-	2,788,756	-	-	-	37,501,495
Machinery and equipment	81,444,145	192,914	4,906,402	32,885	-	-	86,576,346
Motor vehicles	5,147,507	-	706,250	-	(221,198)	-	5,632,559
Furniture and fixtures	15,854,686	83,808	2,885,687	14,399	-	-	18,838,580
Leasehold improvements	1,324,974	-	303,490	-	(111,725)	-	1,516,739
	<b>145,309,704</b>	<b>276,722</b>	<b>12,244,256</b>	<b>47,284</b>	<b>(332,923)</b>	<b>-</b>	<b>157,545,043</b>
<b>Net book value</b>	<b>103,757,339</b>					<b>105,101,885</b>	<b>105,101,885</b>
	1 January 2015	Consolidation impact (*)	Additions	Currency translation difference	Disposals	Transfers	31 December 2015
<b>Cost:</b>							
Land	37,456,746	-	-	-	-	-	37,456,746
Land improvements	11,621,866	-	-	-	-	331,068	11,952,934
Buildings	60,170,668	-	-	-	-	369,115	60,539,783
Machinery and equipment	108,389,066	-	2,106,806	-	(11,787,190)	464,255	99,172,937
Motor vehicles	9,169,102	-	314,541	-	(1,055,861)	-	8,427,782
Furniture and fixtures	34,568,907	-	2,001,683	-	(8,385,743)	268,558	28,453,405
Leasehold improvements	2,841,765	-	81,659	-	(824,362)	-	2,099,062
Construction in process	2,355,130	-	1,845,343	-	-	(3,236,079)	964,394
	<b>266,573,250</b>	<b>-</b>	<b>6,350,032</b>	<b>-</b>	<b>(22,053,156)</b>	<b>(1,803,083)</b>	<b>249,067,043</b>
<b>Accumulated depreciation:</b>							
Land improvements	6,176,947	-	648,706	-	-	-	6,825,653
Buildings	31,891,231	-	2,821,508	-	-	-	34,712,739
Machinery and equipment	87,805,628	-	5,419,005	-	(11,780,488)	-	81,444,145
Motor vehicles	4,737,483	-	717,615	-	(307,591)	-	5,147,507
Furniture and fixtures	21,866,594	-	2,359,706	-	(8,371,614)	-	15,854,686
Leasehold improvements	1,835,312	-	314,024	-	(824,362)	-	1,324,974
	<b>154,313,195</b>	<b>-</b>	<b>12,280,564</b>	<b>-</b>	<b>(21,284,055)</b>	<b>-</b>	<b>145,309,704</b>
<b>Net book value</b>	<b>112,260,055</b>						<b>103,757,339</b>

(\*) Please see Note 2 for details.

#### NOTE 12 - PROPERTY, PLANT AND EQUIPMENT (Continued)

Allocation of depreciation and amortization expenses of property, plant and equipment and intangible assets for the years ended at 31 December 2016 and 2015 are as follows:

	31 December 2016	31 December 2015
Research and development expenses	34,796,657	34,230,530
Cost of goods sold	3,084,543	3,009,620
Costs related to uncompleted contracts	5,200,412	5,040,622
Development projects in process	1,906,371	1,989,862
Depreciation on outstanding inventories	915,766	1,085,521
General administrative expenses	1,763,229	1,692,488
Selling and marketing expenses	1,478,973	1,214,169
Currency translation differences	47,284	-
<b>Total</b>	<b>49,193,235</b>	<b>48,262,812</b>

#### NOTE 13 - INTANGIBLE ASSETS

Movements of intangible assets and related accumulated amortisation for the years ended 31 December 2016 and 2015 are as follows:

	1 January 2016	Additions	Currency translation differences	Disposals	Transfers	31 December 2016
<b>Cost:</b>						
Other intangible assets	16,231,830	1,790,919	-	-	5,490	18,028,239
Development costs	242,619,897	-	-	-	54,763,309	297,383,206
Developments projects in progress	31,224,033	61,617,921	-	-	(54,763,309)	38,078,645
	<b>290,075,760</b>	<b>63,408,840</b>	<b>-</b>	<b>-</b>	<b>5,490</b>	<b>353,490,090</b>
<b>Accumulated amortization:</b>						
Other intangible assets	11,973,214	2,105,039	-	-	-	14,078,253
Development costs	122,683,468	34,796,656	-	-	-	157,480,124
	<b>134,656,682</b>	<b>36,901,695</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>171,558,377</b>
<b>Net book value</b>	<b>155,419,078</b>		<b>-</b>			<b>181,931,713</b>

The Group has capitalised TL 3,323,878 (31 December 2015: -) of its finance expense in relation to qualifying assets in 2016.

**NOTE 13 - INTANGIBLE ASSETS (Continued)**

	1 January 2016	Additions	Currency translation differences	Disposals	Transfers	31 December 2016
<b>Cost:</b>						
Other intangible assets	13,530,710	898,037	-	-	1,803,083	16,231,830
Development costs	186,078,994	-	-	(819,200)	57,360,103	242,619,897
Development projects in progress	40,525,892	48,058,244	-	-	(57,360,103)	31,224,033
	<b>240,135,596</b>	<b>48,956,281</b>	<b>-</b>	<b>(819,200)</b>	<b>1,803,083</b>	<b>290,075,760</b>
<b>Accumulated amortization:</b>						
Other intangible assets	10,221,496	1,751,718	-	-	-	11,973,214
Development costs	88,466,591	34,230,530	-	(13,653)	-	122,683,468
	<b>98,688,087</b>	<b>35,982,248</b>	<b>-</b>	<b>(13,653)</b>	<b>-</b>	<b>134,656,682</b>
<b>Net book value</b>	<b>141,447,509</b>					<b>155,419,078</b>

**NOTE 14 - GOVERNMENT GRANTS AND INCENTIVES**

	31 December 2016	31 December 2015
Short-term	2,155,912	2,056,306
Long-term	3,381,725	5,570,470
<b>Total</b>	<b>5,537,637</b>	<b>7,626,776</b>

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 (Tübitak). The related balance will be recognized as revenue in line with the amortization of the respective development costs.



## NOTE 15 - PROVISIONS, CONTINGENT ASSETS AND LIABILITIES

### Short-term provisions

	31 December 2016	31 December 2015
Provision for other costs	340,870,528	233,120,100
Warranty provision	31,084,815	26,397,052
Short-term provisions for employee benefits	8,490,684	6,651,542
Foundation employer's share of social security premium	-	2,925,000
Provision for license costs	1,091,241	1,316,079
Other	5,606,724	5,890,382
<b>Total</b>	<b>387,143,992</b>	<b>276,300,155</b>

### Long-term provisions

	31 December 2016	31 December 2015
Warranty provision	10,300,186	9,433,926
<b>Total</b>	<b>10,300,186</b>	<b>9,433,926</b>

### 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:

	2016	2015
1 January	233,120,100	153,473,113
Additional provision, net	65,407,045	58,423,534
Foreign currency valuation	42,343,383	21,223,453
<b>31 December</b>	<b>340,870,528</b>	<b>233,120,100</b>

### Warranty provision

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

	2016	2015
1 January	35,830,978	22,615,088
Additional provision (Note 21)	33,766,893	53,642,174
Payments	(28,212,870)	(40,426,284)
<b>31 December</b>	<b>41,385,001</b>	<b>35,830,978</b>

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

##### Provision for license costs

The movements of provision for license costs are as follows:

	2016	2015
1 January	1,316,079	1,264,726
Additional provision	(1,437,328)	1,513,663
Realised	1,212,490	(1,462,310)
<b>31 December</b>	<b>1,091,241</b>	<b>1,316,079</b>

##### Commitments and contingencies

As of 31 December 2016 and 2015, the tables which represent the position of guarantees, pledges and mortgages are as follows:

	31 December 2016	31 December 2015
a. Total amount of guarantees, pledges and mortgages given the name of legal entity	1,614,605,585	1,226,251,723
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	-	-
<b>Total</b>	<b>1,614,605,585</b>	<b>1,226,251,723</b>

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

	31 December 2016		31 December 2015	
	Original currency	TL equivalent	Original currency	TL equivalent
USD	285,635,242	1,005,207,542	293,815,364	854,297,554
EUR	112,795,758	418,460,981	54,315,986	172,594,478
TL	189,755,411	189,755,411	199,359,691	199,359,691
GBP	273,600	1,181,651	-	-
<b>Total</b>		<b>1,614,605,585</b>		<b>1,226,251,723</b>

#### 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 2016	31 December 2015
<b>Guarantee letters given</b>		
Under secretariat of Ministry of Defence	1,092,184,399	751,262,190
Other	522,421,186	474,989,533
<b>Total</b>	<b>1,614,605,585</b>	<b>1,226,251,723</b>

##### Guarantee letters

a) Guarantees given as of 31 December 2016 and 2015 are as follows:

	31 December 2016	31 December 2015
Bank letters of guarantee (*)	1,614,605,585	1,226,251,723
	<b>1,614,605,585</b>	<b>1,226,251,723</b>

(\*) Bank letters of guarantee amounting to TL875,732,621 are given to Secretariat of Ministry of Defence for Altay Project (31 December 2015: TL723,539,489).

b) Guarantees received as of 31 December 2016 and 31 December 2015 are as follows:

	31 December 2016	31 December 2015
Bank letters of guarantee (**)	551,490,428	474,011,532
Guarantee notes	15,898,053	17,653,397
Mortgages received	20,000	582,000
<b>Total</b>	<b>567,408,481</b>	<b>492,246,929</b>

(\*\*) Bank letters of guarantee amounting to TL317,195,187 are obtained from the sub-contractors for Altay Project (31 December 2014: TL236,503,977).

##### Contingent asset

The legal case related to tax deduction for the research and development activities in 2010 was concluded in favor of the Group and TL2,923,627 was refunded to the Group. The same case for 2011-2012-2013-2014 is still in progress at appeal phase. Total amount of cases at the appeal phase relating to years 2011, 2012, 2013, 2014 amount to TL36,168,636, the amount of the legal case for 2015 is TL4,556,631.

#### NOTE 16 - EMPLOYEE BENEFITS

	31 December 2016	31 December 2015
Provision for employment termination benefits	28,087,775	22,321,490
Provision for unused vacation	8,490,684	6,651,542
<b>Total</b>	<b>36,578,459</b>	<b>28,973,032</b>

##### Employment termination benefits

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

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

The amount payable consists of one month's salary limited to a maximum of TL 4,287 for each year of service as of 31 December 2016 (31 December 2015 - TL 3,828).

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

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

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

	31 December 2016	31 December 2015
Net discount rate (%)	4.50	4.60
Turnover rate to estimate the probability of retirement (%)	97.50	97.60

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

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

	2016	2015
1 January	22,321,490	20,969,191
Interest expense	2,020,095	1,897,712
Charge for the period	5,445,004	4,728,224
Remeasurement differences	1,408,203	(1,756,965)
Payments	(3,107,017)	(3,516,672)
<b>31 December</b>	<b>28,087,775</b>	<b>22,321,490</b>



#### NOTE 16 - EMPLOYEE BENEFITS (Continued)

##### Provision for unused vacation

The movements of provision for unused vacation are as follows:

	2016	2015
1 January	6,651,542	5,381,838
Charge for the period net (Note 21)	1,839,142	1,269,704
<b>31 December</b>	<b>8,490,684</b>	<b>6,651,542</b>

#### NOTE 17 - PREPAID EXPENSES, DEFERRED REVENUE, OTHER ASSETS AND LIABILITIESR

##### a) Prepaid expenses:

	31 December 2016	31 December 2015
Advances given	171,436,186	119,060,514
Prepaid expenses	5,329,543	3,631,034
<b>Total</b>	<b>176,765,729</b>	<b>122,691,548</b>

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

##### b) Other current assets:

	31 December 2016	31 December 2015
Value added tax receivables	105,448,252	62,891,217
Other	689,241	2,795,945
<b>Total</b>	<b>106,137,493</b>	<b>65,687,162</b>

##### c) Deferred revenues:

Deferred revenues - short term	31 December 2016	31 December 2015
Deferred maintenance revenues (*)	25,301,518	21,830,112
Advances received	175,322,632	154,462,613
<b>Total</b>	<b>200,624,150</b>	<b>176,292,725</b>
Deferred revenues - long term	31 December 2016	31 December 2015
Deferred maintenance revenues (*)	7,753,691	28,312,416
<b>Total</b>	<b>7,753,691</b>	<b>28,312,416</b>

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

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

**d) Employee benefits obligation:**

	31 December 2016	31 December 2015
Payables to employees	10,364,949	9,776,832
Social security payables	6,323,843	4,060,123
Taxes and funds payable	4,750,882	4,300,629
<b>Total</b>	<b>21,439,674</b>	<b>18,137,584</b>

**e) Other current liabilities:**

	31 December 2016	31 December 2015
Tax and fund payable	1,402,659	915,723
Deferred special consumption tax	9,273,326	638,813
Other	524,102	424,033
<b>Total</b>	<b>11,200,087</b>	<b>1,978,569</b>

**NOTE 18 - EQUITY**

**Share Capital**

As of 31 December 2016 and 2015, the principal shareholders and their respective shareholding percentages are as follows::

	31 December 2016		31 December 2015	
	TL	(%)	TL	(%)
Koç Holding A.Ş.	10,722,750	44.68	10,722,750	44.68
Ünver Holding A.Ş.	5,954,944	24.81	5,954,944	24.81
Other	7,322,306	30.51	7,322,306	30.51
<b>Total</b>	<b>24,000,000</b>	<b>100.00</b>	<b>24,000,000</b>	<b>100.00</b>
Inflation adjustment on equity items	52,743,030		52,743,030	
<b>Total</b>	<b>76,743,030</b>		<b>76,743,030</b>	

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

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

#### NOTE 18 - EQUITY (Continued)

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

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

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

As of 31 December 2016, in the financial statements of the Group prepared in accordance with financial reporting standards published by Capital Markets Board, net income of the year and prior year profits including other reserves to be distributed as dividend is TL69,725,866 (31 December 2015 - TL79,506,151) and TL46,131,822 (31 December 2015 - TL46,011,054), respectively. Current year net income of the Company in statutory books is TL62,303,417 (31 December 2015 - TL47,807,290), other reserves to be distributed as dividend (without being subject to additional taxation) is TL90,495,833 (31 December 2015 - TL131,308,884). In addition, in statutory books there is TL16,224,790 of inflation adjustment and TL19,777,790 of other capital reserves that are subject to taxation if they are distributed.

After deduction of first legal reserves, current year net profit in statutory books is TL62,303,417 (31 December 2015 - TL47,807,290). As of report date, there is no decision of dividend distribution related to 2016.

In accordance with the Communiqué, as of 31 December 2016 and 2015, the details of equity, based on which the dividend will be distributed is as follows:

	31 December 2016	31 December 2015
Paid-in share capital	24,000,000	24,000,000
Inflation adjustment on equity items	52,743,030	52,743,030
Restricted reserves	54,014,610	46,838,147
Accumulated other comprehensive income and expense that is not subject to reclassification to income or loss	(4,985,845)	(3,859,283)
Accumulated other comprehensive income and expense that is subject to reclassification to income or loss	1,328,609	-
Retained earnings		
- Extraordinary reserves	35,181,739	35,060,971
- Inflation adjustments on legal reserves	10,950,083	10,950,083
Net income for the year	69,725,866	79,506,151
<b>Total</b>	<b>242,958,092</b>	<b>245,239,099</b>

#### NOTE 18 - EQUITY (Continued)

As of December 31, 2016 and 2015, the restated amounts and the equity restatement differences of the aforementioned nominal values are as follows:

31 December 2016			
	Historical value	Inflation adjustments on equity items	Restated value
Share capital	24,000,000	52,743,030	76,743,030
Legal reserves	54,014,610	10,950,083	64,964,693
<b>Total</b>	<b>78,014,610</b>	<b>63,693,113</b>	<b>141,707,723</b>
31 December 2015			
	Historical value	Inflation adjustments on equity items	Restated value
Share capital	24,000,000	52,743,030	76,743,030
Legal reserves	46,838,147	10,950,083	57,788,230
<b>Total</b>	<b>70,838,147</b>	<b>63,693,113</b>	<b>134,531,260</b>

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

	31 December 2016	31 December 2015
Legal reserves	54,014,610	46,838,147
Extraordinary reserves	90,495,833	131,308,884
<b>Total</b>	<b>144,510,443</b>	<b>178,147,031</b>
Dividends distributed during the year based on previous year's net income per statutory financial statements	72,000,000	80,000,000
Dividend paid per share (piaster)	0.300	0.333

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



#### NOTE 19 - REVENUE AND COST OF SALES

##### Net sales

	1 January - 31 December 2016	1 January - 31 December 2015
Domestic Sales	1,197,376,125	1,023,161,185
Export Sales	446,885,490	419,631,436
<b>Gross Sales</b>	<b>1,644,261,615</b>	<b>1,442,792,621</b>
Less: sales discounts and returns	(9,746,917)	(8,824,734)
<b>Net sales</b>	<b>1,634,514,698</b>	<b>1,433,967,887</b>

Sales of the Group for the years ended 31 December 2016 and 2015 in terms of the products are as follows:

	1 January - 31 December 2016	1 January - 31 December 2015
Commercial vehicle	639,775,622	648,616,536
Armoured vehicle	676,159,002	403,763,175
Other (*)	318,580,074	381,588,176
	<b>1,634,514,698</b>	<b>1,433,967,887</b>

(\*) TL158,226,424 of this amount is related to revenues of uncompleted contracts (2015: TL191,121,291) the remaining balance amounting to TL160,353,650 is consisted of spare parts, maintenance & repairment and other revenues (2015: TL190,466,885).

##### Cost of sales

	1 January - 31 December 2016	1 January - 31 December 2015
Cost of finished goods sold	(1,155,427,671)	(969,683,214)
Cost of merchandise goods sold	(69,241,750)	(93,343,247)
	<b>(1,224,669,421)</b>	<b>(1,063,026,461)</b>

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

	1 January - 31 December 2016	1 January - 31 December 2015
Marketing expenses	189,512,567	(179,773,869)
General administrative expenses	(63,132,410)	(49,337,559)
Research and development expenses	(36,176,104)	(35,321,089)
	<b>(288,821,081)</b>	<b>(264,432,517)</b>

**NOTE 21 - EXPENSES BY NATURE**

	1 January - 31 December 2016	1 January - 31 December 2015
Cost of raw material and consumption goods	1,026,749,024	937,566,869
Change in finished and semi-finished goods	(26,270,057)	(113,973,324)
Cost of merchandises sold	69,241,750	93,343,247
Depreciation and amortization expense	46,323,814	45,187,429
Personnel expenses	188,584,734	157,888,134
Operational expenses	29,939,826	33,690,164
Administrative expenses	50,857,431	34,197,342
Warranty reserve expense (Note 15)	33,766,893	53,642,174
Exhibition and fair expenses	12,237,920	6,697,611
Transportation,distribution and storage expenses	18,359,293	15,107,913
Advertisement and promotion expenses	3,322,838	2,306,171
Provisions of impairment for inventories (Note 10)	(89,057)	(699,394)
Other expenses	60,466,093	62,504,642
<b>Total</b>	<b>1,513,490,502</b>	<b>1,327,458,978</b>

#### NOTE 21 - EXPENSES BY NATURE (Continued)

The breakdown of personnel expenses is as follows:

	1 January - 31 December 2016	1 January - 31 December 2015
<b>With respect to the account:</b>		
Cost of sales and inventories on hand	93,905,659	84,056,162
Costs related to uncompleted contracts	25,668,790	23,194,843
Capitalized development expenditures	27,761,287	22,875,600
General administrative expenses	24,631,495	20,512,531
Marketing expenses	42,999,344	29,034,039
Research and development expenses	1,379,446	1,090,559
	<b>216,346,021</b>	<b>180,763,734</b>
	1 January - 31 December 2016	1 January - 31 December 2015
<b>By nature:</b>		
Wages and salaries	160,166,090	132,802,499
Social security premiums	27,812,525	23,980,763
Other social benefits	19,063,165	16,084,832
Provision for employment termination benefits	7,465,099	6,625,936
Provision for vacation pay liability	1,839,142	1,269,704
	<b>216,346,021</b>	<b>180,763,734</b>

#### NOTE 22 - OTHER OPERATING INCOME AND EXPENSES

	1 January - 31 December 2016	1 January - 31 December 2015
<b>Other operating income</b>		
Foreign exchange gains on operating activities	390,893,948	159,319,445
Gain on forward transactions	7,034,743	38,526,757
Revenue from charge of due date receivables	9,778,451	14,033,204
Gain on incentives	2,164,055	2,033,845
Other	13,037,782	11,730,388
<b>Total</b>	<b>422,908,979</b>	<b>225,643,639</b>
	1 January - 31 December 2016	1 January - 31 December 2015
<b>Other operating expenses</b>		
Foreign exchange loss on operating activities	(364,766,726)	(156,766,696)
Loss on forward transactions	(11,190,008)	(32,718,137)
Expense on provision for uncollectible receivables(Note 8)	(3,333,007)	(2,924,718)
Other	-	(82,529)
<b>Total</b>	<b>(379,289,741)</b>	<b>(192,492,080)</b>

#### NOTE 23 - FINANCIAL INCOME

	1 January - 31 December 2016	1 January - 31 December 2015
Interest income from time deposits	527,484	768,391
Foreign exchange gains on deposits	6,546,742	4,620,326
Foreign exchange gains on bank borrowings	8,442,800	7,002,085
<b>Total</b>	<b>15,517,026</b>	<b>12,390,802</b>

#### NOTE 24 - FINANCIAL EXPENSES

	1 January - 31 December 2016	1 January - 31 December 2015
Interest expense on bank borrowings	(77,758,844)	(40,417,977)
Foreign exchange losses on deposits	(5,980,793)	(8,018,503)
Foreign exchange losses on bank borrowings	(28,250,090)	(17,254,290)
Other	(176,997)	-
<b>Total</b>	<b>(112,166,724)</b>	<b>(65,690,770)</b>

#### NOTE 25 - TAX ASSETS AND LIABILITIES

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

In Turkey, the corporation tax rate is 20% (2015 - 20%). Corporate tax returns are required to be filed by the twenty-fifth day of the fourth month following the balance sheet date and taxes must be paid in one installment by the end of the fourth month. The tax legislation provides for a temporary tax of 20% to be calculated and paid based on earnings generated for each quarter. The amounts thus calculated and paid are offset against the final corporate tax liability for the year.

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

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



#### NOTE 25 - TAX ASSETS AND LIABILITIES (Continued)

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

The aforementioned law has been enacted as of April 1, 2008. Accordingly, income tax-payers can deduct 100% of the expenditures made as of then, which are related to research and development related to new technology and information developments. Research and development incentives shall be calculated over the total expenditures made in 2015 and 2014.

As a result of its research and development expenditures made in 2016 amounting to TL48,655,306 (2015 – TL40,641,115). The Group has utilized research and development incentives at 100% deduction without any withholding tax. The Company has an R&D center certificate.

As of 31 December 2016 and 2015, income tax payables are presented net of prepaid taxes in the balance sheet as follows:

	31 December 2016	31 December 2015
Income tax payable	572,388	6,844,679
Less-prepaid tax (-)	(572,388)	(4,750,985)
<b>Income tax payable</b>	<b>-</b>	<b>2,093,694</b>

The breakdown of total tax expense for the years ended 31 December 2016 and 2015 are as follows:

	31 December 2016	31 December 2015
Current tax charge	1,387,431	(6,663,642)
<b>Deferred tax income:</b>		
charged to profit for the period	258,072	(1,670,510)
charged to other comprehensive income	281,641	(351,393)
<b>Total</b>	<b>1,927,144</b>	<b>(8,685,545)</b>

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

	1 January - 31 December 2016	1 January - 31 December 2015
<b>Profit before tax</b>	<b>68,080,363</b>	<b>87,840,303</b>
Income tax charge at effective tax rate 20%	(13,616,073)	(17,568,061)
Effect of exemptions and incentives	9,731,061	8,128,223
Other differences	5,812,156	754,293
<b>Total</b>	<b>1,927,144</b>	<b>(8,685,545)</b>

#### NOTE 25 - TAX ASSETS AND LIABILITIES (Continued)

As of 31 December 2016 and 2015, 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 2016	31 December 2015	31 December 2016	31 December 2015
R&D expenses	66,991,441	-	13,398,288	-
Property, plant and equipment	(10,263,439)	(10,992,437)	1,428,607	1,282,807
Intangible assets	(44,359,696)	(26,282,311)	(8,871,939)	(5,256,462)
Deferred financial expense	(1,277,874)	(900,574)	(255,575)	(180,115)
Inventories	710,495	805,990	142,099	161,198
Warranty provision	31,084,815	35,830,978	6,216,963	7,166,196
Provision for employment termination benefits	28,087,775	22,321,490	5,617,555	4,464,298
Deferred financial income	3,290,944	7,933,694	658,189	1,586,739
Other provisions	13,917,097	14,808,853	2,783,420	2,961,770
Deferred maintenance income	33,055,209	50,142,528	6,611,042	10,028,506
Due from customers on contract works	50,621,151	69,655,901	10,124,230	13,931,180
Other	2,525	5,837,770	505	1,167,554
<b>Deferred tax assets, net</b>			<b>37,853,384</b>	<b>37,313,671</b>

The movement of deferred tax asset for the years ended 31 December 2016 and 2015 are as follows:

	2016	2015
1 January	37,313,671	39,335,574
Deferred tax income:		
charged to profit for the period	258,072	(1,670,510)
charged to other comprehensive income	281,641	(351,393)
<b>31 December</b>	<b>37,853,384</b>	<b>37,313,671</b>

#### 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.

#### NOTE 26 - EARNINGS PER SHARE (Continued)

	31 December 2016	31 December 2015
Net income attributable to shareholders (TL)	69,725,866	79,506,151
Weighted average number of issued shares	24,000,000,000	24,000,000,000
Earnings per share (Piastre)	0.291	0.331

#### 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 2016 and 2015:

	31 December 2016	31 December 2015
<b>Due from related parties</b>		
Ram Dış Ticaret A.Ş. (1) (*)	29,334,751	99,343,743
Ford Otosan A.Ş. (1), (2)	67,172	390,673
Türk Traktör ve Ziraat Makineleri A.Ş. (1)	34,920	413,262
Otokar Europe SAS (3)	-	6,742,250
Other (1)	-	16,257
<b>Total</b>	<b>29,436,843</b>	<b>106,906,185</b>

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

	31 December 2016	31 December 2015
<b>Due to related parties</b>		
Koç Holding A.Ş. (2)	4,609,412	5,992,481
Zer Merkezi Hizmetler A.Ş. (1)	1,965,321	3,244,001
Ram Dış Ticaret A.Ş. (1)	1,245,014	14,026,345
Koç Sistem Bilgi ve İletişim Hiz. A.Ş. (1)	779,784	202,101
Opet Fuchs Madeni Yağ A.Ş. (1)	613,942	398,558
Eltek Elektrik Enerji İth. İhr. Top. Tic. A.Ş. (1)	435,594	492,530
Otokoç Otomotiv Tic. ve San. A.Ş. (1)	408,519	269,119
Setur Servis Turistik A.Ş. (1)	337,098	1,029,066
Akpa Dayanıklı Tük. Paz. A.Ş. (1)	255,555	315,837
Other (1)	366,475	1,199,312
<b>Total</b>	<b>11,016,714</b>	<b>27,169,350</b>

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

**NOTE 27 - RELATED PARTY DISCLOSURES (Continued)**

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

Product sales and service revenue	1 January – 31 December 2016	1 January – 31 December 2015
Ram Dış Ticaret A.Ş. (1) (*)	169,278,344	336,302,787
Türk Traktör ve Ziraat Makineleri A.Ş. (1)	316,330	1,565,239
Ford Otosan A.Ş. (1), (2)	154,936	1,563
Aygaz A.Ş. (1)	2,668	600,845
Otokar Europe SAS (3)	-	14,129,382
Other (1)	2,910	589
<b>Total</b>	<b>169,755,188</b>	<b>352,600,405</b>
(*) Certain portion of export sales are realized through Ram Dış Ticaret A.Ş. as export registered sales, accordingly the amount composed of accounts receivables arising on these transactions..		
Purchase of property, plant and equipment	1 January – 31 December 2016	1 January – 31 December 2015
Koç Sistem Bilgi ve İletişim Hizm. A.Ş. (1)	2,670,105	1,029,492
Zer Merkezi Hizmetler A.Ş. (1)	330,725	240,788
Otokoç Otomotiv Tic. ve San. A.Ş. (1)	59,864	161,901
Arçelik A.Ş. (1)	38,905	13,360
Setur Servis Turistik A.Ş. (1)	31,230	18,878
Koçtaş Yapı Marketleri A.Ş. (1)	3,550	6,680
Other (1)	820	
<b>Total</b>	<b>3,135,199</b>	<b>1,471,099</b>
Inventories purchased	1 January – 31 December 2016	1 January – 31 December 2015
Zer Merkezi Hizmetler A.Ş. (1)	20,853,315	19,356,732
Ram Dış Ticaret A.Ş. (1)	2,314,468	6,191,802
Opet Fuchs Madeni Yağ A.Ş. (1)	2,330,293	2,438,783
Akpa Dayanıklı Tük.Paz. A.Ş. (1)	2,258,261	2,451,134
Opet Petrolcülük A.Ş. (1)	2,025,660	1,783,556
Ford Otosan A.Ş. (1), (2)	118,991	4,010
Other (1)	156,366	60,452
<b>Total</b>	<b>30,057,354</b>	<b>32,286,469</b>

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



**NOTE 27 - RELATED PARTY DISCLOSURES (Continued)**

Services purchased	1 January – 31 December 2016	1 January – 31 December 2015
Ram Dış Ticaret A.Ş. (1)	27,265,973	22,772,787
Koç Holding A.Ş. (2) (*)	13,274,774	8,077,173
Otokar Europe SAS (3)	-	5,997,962
Setur Servis Turistik A.Ş. (1)	6,454,662	5,680,190
Eltek Elektrik Enerji İth. İhr.Top.Tic. A.Ş. (1)	4,575,778	5,425,587
Koç Sistem Bilgi ve İlt. Hizm. A.Ş. (1)	2,989,714	1,323,322
Otokoç Otomotiv Tic. ve San. A.Ş. (1)	2,830,763	2,193,307
Ram Sigorta Aracılık Hz. A.Ş. (1) (**)	2,034,589	2,821,729
Other (1)	933,541	1,159,664
<b>Total</b>	<b>60,359,794</b>	<b>55,451,721</b>

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

(\*\*) It includes paid and accrued premium as of 31 December 2016 in accordance with insurance policies signed between unrelated insurance companies via Ram Sigorta Aracılık Hizmetleri A.Ş. which is an insurance agency.

Banks deposits	31 December 2016	31 December 2015
Yapı ve Kredi Bankası A.Ş. (1)		
- Demand deposits	13,998	2,931
- Time deposits	20,761,457	33,072,560
<b>Total</b>	<b>20,775,455</b>	<b>33,075,491</b>

Checks and notes in collection	31 December 2016	31 December 2015
Yapı ve Kredi Bankası A.Ş. (1)	6,977,202	25,716,139
<b>Total</b>	<b>6,977,202</b>	<b>25,716,139</b>

Borrowings	31 December 2016	31 December 2015
Yapı ve Kredi Bankası A.Ş. (1)	-	40,176,227
<b>Total</b>	<b>-</b>	<b>40,176,227</b>

(1) Related parties of parent company

(2) Şirket hissedarı

(3) İlgili dönemde konsolidasyon kapsamında olmayan bağlı ortaklık

#### NOTE 27 - RELATED PARTY DISCLOSURES (Continued)

For the years ended 31 December 2016 and 2015, other income and expense with related parties:

	1 January – 31 December 2016	1 January – 31 December 2015
<b>Exchange gain from trade receivables and payables</b>		
Ram Dış Ticaret A.Ş. (1)	6,585,777	9,539,639
Otokar Europe SAS (3)	-	396,073
Other (1)	233,565	63,976
<b>Total</b>	<b>6,819,342</b>	<b>9,999,688</b>
	<b>1 January – 31 December 2016</b>	<b>1 January – 31 December 2015</b>
<b>Exchange loss from trade receivables and payables</b>		
Ram Dış Ticaret A.Ş. (1)	5,358,228	23,994,845
Yapı Kredi Faktoring A.Ş. (1)	5,668,097	-
Otokar Europe SAS (3)	-	202,801
Other (1)	177,545	99,961
<b>Total</b>	<b>11,203,870</b>	<b>24,297,607</b>

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

	1 January – 31 December 2016	1 January – 31 December 2015
<b>Interest income</b>		
Yapı ve Kredi Bankası A.Ş. (1)	135,901	62,271
<b>Total</b>	<b>135,901</b>	<b>62,271</b>
	<b>1 January – 31 December 2016</b>	<b>1 January – 31 December 2015</b>
<b>Interest expense</b>		
Yapı ve Kredi Bankası A.Ş. (1)	4,784,316	6,118,370
<b>Total</b>	<b>4,784,316</b>	<b>6,118,370</b>

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

#### NOTE 27 - RELATED PARTY DISCLOSURES (Continued)

For the years ended 31 December 2016 and 2015, financial income and expense with related parties:

	1 January – 31 December 2016	1 January – 31 December 2015
<b>Foreign exchange gains</b>		
Yapı ve Kredi Bankası A.Ş. (1)	1,975,523	3,282,564
<b>Total</b>	<b>1,975,523</b>	<b>3,282,564</b>
	<b>1 January – 31 December 2016</b>	<b>1 January – 31 December 2015</b>
<b>Foreign exchange loss</b>		
Yapı ve Kredi Bankası A.Ş. (1)	2,967,635	5,167,790
<b>Total</b>	<b>2,967,635</b>	<b>5,167,790</b>

(1) Related parties of parent company

#### Benefits to key management

Salaries and similar benefits provided to the executive management by the Company for the year ended 31 December 2016 is amounted to TL 12,458,669 (31 December 2015: TL 10,840,763). Executives are composed of board of directors members, general manager and assistants of general manager.

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

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

##### *Credit risk*

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

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

	Receivables			
31 December 2016	Trade receivables	Other	Bank deposits	Derivative instruments
<b>Maximum credit risk exposure as of reporting date (A+B+C+D+E) (1)</b>	<b>397,831,680</b>	<b>253,672</b>	<b>37,594,864</b>	<b>-</b>
- Maximum risk secured by guarantee (2)	<b>(189,880,986)</b>	<b>-</b>	<b>-</b>	<b>-</b>
A. Net book value of financial assets neither overdue nor impaired	<b>394,757,970</b>	<b>253,672</b>	<b>37,594,864</b>	<b>-</b>
B. Net book value of financial assets of which conditions are negotiated, otherwise considered as impaired or overdue	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
C. Net book value of assets overdue but not impaired	<b>218,615</b>	<b>-</b>	<b>-</b>	<b>-</b>
D. Net book value of impaired assets	<b>2,855,095</b>	<b>-</b>	<b>-</b>	<b>-</b>
- Overdue (gross book value)	<b>31,764,661</b>	<b>-</b>	<b>-</b>	<b>-</b>
- Impairment (-) (Note 8)	<b>(28,909,565)</b>	<b>-</b>	<b>-</b>	<b>-</b>
- Net value under guarantee	<b>1,169,759</b>	<b>-</b>	<b>-</b>	<b>-</b>
- Not overdue (gross book value)	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
- Impairment (-)	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
- Net value under guarantee	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
E. Off- balance sheet items having credit risk	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
	Receivables			
31 December 2015	Trade receivables	Other	Bank deposits	Derivative instruments
<b>Maximum credit risk exposure as of reporting date (A+B+C+D+E) (1)</b>	<b>444,749,767</b>	<b>67,943</b>	<b>56,521,601</b>	<b>-</b>
- Maximum risk secured by guarantee (2)	<b>(203,683,654)</b>	<b>-</b>	<b>-</b>	<b>-</b>
A. Net book value of financial assets neither overdue nor impaired	<b>441,619,979</b>	<b>67,943</b>	<b>56,521,601</b>	<b>-</b>
B. Net book value of financial assets of which conditions are negotiated, otherwise considered as impaired or overdue	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
C. Net book value of assets overdue but not impaired	<b>187,248</b>	<b>-</b>	<b>-</b>	<b>-</b>
D. Net book value of impaired assets	<b>2,942,540</b>	<b>-</b>	<b>-</b>	<b>-</b>
- Overdue (gross book value)	<b>27,999,334</b>	<b>-</b>	<b>-</b>	<b>-</b>
- Impairment (-) (Note 8)	<b>(25,056,794)</b>	<b>-</b>	<b>-</b>	<b>-</b>
- Net value under guarantee	<b>1,225,992</b>	<b>-</b>	<b>-</b>	<b>-</b>
- Not overdue (gross book value)	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
- Impairment (-)	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
- Net value under guarantee	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
E. Off- balance sheet items having credit risk	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
(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.			



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

**Liquidity risk**

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

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

As of 31 December 2016 and 2015, maturities of gross trade payables and financial liabilities are as follows:

**31 December 2016**

Maturities per agreements	Book value	Total cash outflow per agreements (=I+II+III+IV)	Less than 3 month (I)	Between 3-12 month (II)	Between 1-5 years (III)	Over 5 years (IV)
<b>Non-derivative financial liabilities</b>						
Bank loans	430,119,077	517,990,565	14,966,557	38,863,696	464,160,312	-
Trade payables	401,144,983	402,431,103	402,101,703	329,400	-	-
	Book value	Total expected cash outflow	Less than 3 month (I)	Between 3-12 month (II)	Between 1-5 years (III)	Over 5 years (IV)
<b>Non-derivative financial liabilities</b>						
Other payables	37,958,298	46,588,486	46,588,486	-	-	-
Other short-term liabilities	11,200,087	11,200,087	11,200,087	-	-	-
Expected (or maturities per agreement)	Book value	Total expected cash outflow	Less than 3 month (I)	Between 3-12 month (II)	Between 1-5 years (III)	Over 5 years (IV)
<b>Derivative financial liabilities (net)</b>						
Derivative cash inflows	25,449,000	25,449,000	25,449,000	-	-	-
Derivative cash outflows	(25,397,200)	(25,397,200)	(25,397,200)	-	-	-

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

**31 December 2015**

Expected maturities	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)
<b>Non-derivative financial liabilities</b>						
Bank loans	615,277,836	711,794,230	31,898,813	118,599,753	561,295,664	-
Trade payables	165,819,465	166,726,933	166,474,633	252,300	-	-
Expected maturities	Book value	Total expected cash outflow	Less than 3 month (I)	Between 3-12 month (II)	Between 1-5 years (III)	Over 5 years (IV)
<b>Non-derivative financial liabilities</b>						
Other payables	36,228,439	36,228,439	36,228,439	-	-	-
Other short-term liabilities	1,978,569	1,978,569	1,978,569	-	-	-
Expected (or maturities per agreement)	Book value	Total expected cash outflow	Less than 3 month (I)	Between 3-12 month (II)	Between 1-5 years (III)	Over 5 years (IV)
<b>Derivative financial liabilities (net)</b>						
Derivative cash inflows	55,582,286	55,582,286	55,582,286	-	-	-
Derivative cash outflows	(55,435,650)	(55,435,650)	(55,435,650)	-	-	-

**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.

**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 2016	TL equivalent (functional currency)	USD	EUR	GBP
1. Trade receivables	470,903,503	76,164,894	53,968,323	612,870
2a. Monetary financial assets (including cash, bank accounts)	189,090,390	39,445,051	13,551,653	21
2b. Non-monetary financial assets	-	-	-	-
3. Other	1,533	304	125	-
<b>4. Current assets (1+2+3)</b>	<b>659,995,426</b>	<b>115,610,249</b>	<b>67,520,101</b>	<b>612,891</b>
5. Trade receivables	7,558,432	-	2,037,368	-
6a. Monetary financial assets	-	-	-	-
6b. Non-monetary financial assets	-	-	-	-
7. Other	73,919	2,725	17,340	-
<b>8. Non-current assets (5+6+7)</b>	<b>7,632,351</b>	<b>2,725</b>	<b>2,054,708</b>	<b>-</b>
<b>9. Total assets( (4+8)</b>	<b>667,627,777</b>	<b>115,612,974</b>	<b>69,574,809</b>	<b>612,891</b>
10. Trade payables	(25,304,828)	(2,840,608)	(4,125,814)	(417)
11. Financial liabilities	(491,122)	-	(132,381)	-
12a. Monetary other liabilities	(500,457,967)	(108,505,350)	(31,937,025)	(28,426)
12b. Non-monetary other liabilities	(25,301,518)	-	(6,820,000)	-
<b>13. Current liabilities (10+11+12)</b>	<b>(551,555,435)</b>	<b>(111,345,958)</b>	<b>(43,015,220)</b>	<b>(28,843)</b>
14. Trade payables	-	-	-	-
15. Financial liabilities	(74,198,000)	-	(20,000,000)	-
16a. Monetary other liabilities	-	-	-	-
16b. Non-monetary other liabilities	(7,753,691)	-	(2,090,000)	-
<b>17. Non-current liabilities (14+15+16)</b>	<b>(81,951,691)</b>	<b>-</b>	<b>(22,090,000)</b>	<b>-</b>
<b>18. Total liabilities (13+17)</b>	<b>(633,507,126)</b>	<b>(111,345,958)</b>	<b>(65,105,220)</b>	<b>(28,843)</b>
19. Net asset/(liability) position of off-balance sheet derivative instruments( (19a-19b)	(25,397,200)	(3,000,000)	(4,000,000)	-
19a. Hedged total assets amount	-	-	-	-
19b. Hedged total liabilities amount	(25,397,200)	(3,000,000)	(4,000,000)	-
<b>20. Net foreign currency asset/(liability) position (9+18+19)</b>	<b>8,723,451</b>	<b>1,267,016</b>	<b>469,589</b>	<b>584,048</b>
<b>21. Net foreign currency asset/(liability) position of monetary items (=1+2a+5+6a-10-11-12a-14-15-16a)</b>	<b>67,100,408</b>	<b>4,263,987</b>	<b>13,362,124</b>	<b>584,048</b>
22. Total fair value of financial instruments used for foreign currency hedging	(25,397,200)	(3,000,000)	(4,000,000)	-
23. Export	441,813,417	49,321,829	84,591,102	1,727,742
24. Import	568,711,247	88,220,788	86,295,062	3,755,102

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

31 December 2015	TL equivalent (functional currency)	USD	EUR	GBP
1. Trade receivables	216,351,765	30,436,177	40,200,851	26,347
2a. Monetary financial assets (including cash, bank accounts)	145,541,867	47,570,674	2,273,765	60
2b. Non-monetary financial assets	-	-	-	-
3. Other	1,281	304	125	-
<b>4. Current assets (1+2+3)</b>	<b>361,894,913</b>	<b>78,007,155</b>	<b>42,474,741</b>	<b>26,407</b>
5. Trade receivables	99,220,390	-	31,224,946	-
6a. Monetary financial assets	188,278,141	64,753,797	-	-
6b. Non-monetary financial assets	-	-	-	-
7. Other	55,100	-	17,340	-
<b>8. Non-current assets (5+6+7)</b>	<b>287,553,631</b>	<b>64,753,797</b>	<b>31,242,286</b>	<b>-</b>
<b>9. Total assets (4+8)</b>	<b>649,448,544</b>	<b>142,760,952</b>	<b>73,717,027</b>	<b>26,407</b>
10. Trade payables	(68,719,333)	(16,392,611)	(4,554,888)	(1,530,580)
11. Financial liabilities	-	-	-	-
12a. Monetary other liabilities	(335,308,086)	(114,658,757)	(567,734)	(28,426)
12b. Non-monetary other liabilities	(21,830,112)	-	(6,870,000)	-
<b>13. Current liabilities (10+11+12)</b>	<b>(425,857,531)</b>	<b>(131,051,368)</b>	<b>(11,992,622)</b>	<b>(1,559,006)</b>
14. Trade payables	-	-	-	-
15. Financial liabilities	(158,609,314)	-	(49,914,814)	-
16a. Monetary other liabilities	-	-	-	-
16b. Non-monetary other liabilities	(28,312,416)	-	(8,910,000)	-
<b>17. Non-current liabilities (14+15+16)</b>	<b>(186,921,730)</b>	<b>-</b>	<b>(58,824,814)</b>	<b>-</b>
<b>18. Total liabilities (13+17)</b>	<b>(612,779,261)</b>	<b>(131,051,368)</b>	<b>(70,817,436)</b>	<b>(1,559,006)</b>
19. Net asset/(liability) position of off-balance sheet derivative instruments (19a-19b)	(31,351,414)	(9,176,250)	(3,500,000)	1,500,000
19a. Hedged total assets amount	17,568,986	3,823,750	-	1,500,000
19b. Hedged total liabilities amount	(48,920,400)	(13,000,000)	(3,500,000)	-
<b>20. Net foreign currency asset/(liability) position (9+18+19)</b>	<b>5,317,869</b>	<b>2,533,334</b>	<b>(600,409)</b>	<b>(32,599)</b>
<b>21. Net foreign currency asset/(liability) position of monetary items (=1+2a+5+6a-10-11-12a-14-15-16a)</b>	<b>86,755,430</b>	<b>11,709,280</b>	<b>18,662,126</b>	<b>(1,532,599)</b>
22. Total fair value of financial instruments used for foreign currency hedging	(31,351,415)	(9,176,250)	(3,500,000)	1,500,000
23. Export	419,042,792	83,211,052	59,107,422	64,966
24. Import	476,994,960	89,522,971	66,401,085	6,911,697



**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 2016 and 2015:

		Profit before tax	
31 December 2016		Appreciation of foreign currency	Depreciation of foreign currency
<i>In case 10% appreciation of USD against TL:</i>			
1-	USD net asset/liability	445,889	(445,889)
2-	Amount hedged for USD risk (-)		
<b>3-</b>	<b>USD net effect (1+2)</b>	<b>445,889</b>	<b>(445,889)</b>
<i>In case 10% appreciation of EUR against TL:</i>			
4-	EUR net asset/liability	174,212	(174,212)
5-	Amount hedged for EUR risk (-)		
<b>6-</b>	<b>EUR net effect (4+5)</b>	<b>174,212</b>	<b>(174,212)</b>
<i>In case 10% appreciation of GBP against TL:</i>			
7-	GBP net asset/liability	252,244	(252,244)
8-	Amount hedged for GBP risk (-)		
<b>9-</b>	<b>GBP net effect (7+8)</b>	<b>252,244</b>	<b>(252,244)</b>
<b>Total (3+6+9)</b>		<b>872,345</b>	<b>(872,345)</b>
		Profit before tax	
31 December 2015		Appreciation of foreign currency	Depreciation of foreign currency
<i>In case 10% appreciation of USD against TL:</i>			
1-	USD net asset/liability	736,593	(736,593)
2-	Amount hedged for USD risk (-)	-	-
<b>3-</b>	<b>USD net effect (1+2)</b>	<b>736,593</b>	<b>(736,593)</b>
<i>In case 10% appreciation of EUR against TL:</i>			
4-	EUR net asset/liability	(190,786)	190,786
5-	Amount hedged for EUR risk (-)	-	-
<b>6-</b>	<b>EUR net effect (4+5)</b>	<b>(190,786)</b>	<b>190,786</b>
<i>In case 10% appreciation of GBP against TL:</i>			
7-	GBP net asset/liability	(14,020)	14,020
8-	Amount hedged for GBP risk (-)	-	-
<b>9-</b>	<b>GBP net effect (7+8)</b>	<b>(14,020)</b>	<b>14,020</b>
<b>Total (3+6+9)</b>		<b>531,787</b>	<b>(531,787)</b>

## 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 will obtain in future will be affected from future interest rates.

As of 31 December 2016 and 2015, 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 2016	31 December 2015
Total financial liability	430,119,077	615,277,836
Less: Cash and cash equivalents (Note 4)	(38,598,352)	(58,736,065)
Net financial liability	391,520,725	556,541,771
Total equity	242,958,092	245,239,099
<b>Financial debt/shareholders' equity factor</b>	<b>161%</b>	<b>227%</b>

## 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).

#### NOTE 29 - FINANCIAL INSTRUMENTS (Continued)

The following table presents the Group's assets that are measured at fair value at 31 December 2016 and 2015:

##### 31 December 2016

Assets	Level 1	Level 2	Level 3	Total
Derivative financial instruments	-	51,800	-	51,800
<b>Total</b>	<b>-</b>	<b>51,800</b>	<b>-</b>	<b>51,800</b>

##### 31 December 2015

Assets	Level 1	Level 2	Level 3	Total
Derivative financial instruments	-	146,636	-	146,636
<b>Total</b>	<b>-</b>	<b>146,636</b>	<b>-</b>	<b>146,636</b>

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

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

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

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

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

#### NOTE 30 - SUBSEQUENT EVENTS

None.

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

None.

# INFORMATION DOCUMENT CONCERNING THE GENERAL ASSEMBLY TO CONVENE ON MARCH 24, 2016 TO REVIEW YEAR 2016

## I. INVITATION TO THE ORDINARY GENERAL ASSEMBLY ON MARCH 24, 2017

The Ordinary General Assembly will convene to review the activities of the Company and to discuss the agenda detailed below on Monday, March 24, 2017, at the Divan Istanbul Hotel, Asker Ocağı Cad. No: 1, Elmadağ, Şişli, İstanbul (Phone: +90 212 315 55 00) at 2:00 pm.

The Financial Statements, Independent Auditor's Report, the Board of Director's Profit Distribution Proposal, Annual Report and the attached Corporate Governance Compliance Report, as well as the agenda items below and the Information Notes on work required to ensure compliance with the Capital Market Board's regulations, all of which pertain to the 2016 fiscal year will be made available for the shareholders to review at the Company's Headquarters, on the corporate website at [www.otokar.com.tr](http://www.otokar.com.tr), and EGKS (Electronic General Assembly System) of the Central Registry Agency three weeks prior to the Ordinary General Assembly within the legal duration.

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

Those shareholders who wish to cast their votes via the Electronic General Assembly System are kindly requested to obtain information from the Central Registry Agency, the Company's website at [www.otokar.com.tr](http://www.otokar.com.tr) or the Company's Headquarters (phone: +90 216 229 22 44) to be able to fulfil their obligations in compliance with relevant Regulations and Communiqués.

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

Pursuant to the Law No. 6698 on Protection of Personal Data, detailed information about the processing of your personal data by our Company can be obtained from Otokar Otomotiv ve Savunma Sanayi A.Ş. Personal Data Protection and Processing Policy via [www.otokar.com.tr](http://www.otokar.com.tr) website.

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

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

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

Respectfully submitted for the attention of Shareholders.

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

**Company Headquarters:** Aydınevler Mahallesi, Dumlupınar Caddesi, No:58 A Blok Küçükyalı - İstanbul

**Trade Registry and Number:** İstanbul – 83467

**Central Registration System Number:** 0649001827200010



## 2. OUR ADDITIONAL DISCLOSURES IN ACCORDANCE WITH CMB REGULATIONS

The required additional disclosures pursuant to Capital Market Board's (CMB) "Corporate Governance Communiqué" numbered II-17.1 that entered into force on January 3, 2014 and which are related to agenda topics, are provided below the following agenda topics, and other mandatory general disclosures are presented for your attention in this section:

### 2.1. Shareholding Structure and Voting Rights

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

The voting rights of our shareholders are presented in the table below:

Shareholder	Amount of Shares (TL)	Stake (%)	Voting Right	Voting Right (%)
Koç Holding A.Ş.	10,722,749.81	44.68	10,722,749,809	44,68
Ünver Holding A.Ş.	5,954,943.83	24.81	5,954,943,830	24,81
Temel Ticaret ve Yatırım A.Ş.	647,274.75	2.70	647,274,750	2,70
Ford Otomotiv Sanayi A.Ş.	140,599.17	0.59	140,599,174	0,59
Other (includes free float)	6,534,432.44	27.23	6,534,432,437	27,23
<b>Total</b>	<b>24,000,000.00</b>	<b>100.00%</b>	<b>24,000,000,000</b>	<b>100,00%</b>

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

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

Within the framework of our strategic targets as Otokar Otomotiv ve Savunma Sanayi A.Ş., there were no changes in the management or activities, which could materially affect the activities of the Company during 2016. Significant changes in management and activities are planned for upcoming accounting periods.

### 2.3. Information concerning the Requests of Shareholders for Inclusion of an Issue in the Agenda

Information on shareholders' written requests submitted to the Investor Relations Unit for inclusion of a topic in the agenda, rejected requests and reasons for rejections in the event that the board of directors did not accept such requests are provided below:

No such requests were received for the Ordinary General Assembly where the 2016 activities will be discussed.

# INFORMATION DOCUMENT CONCERNING THE GENERAL ASSEMBLY TO CONVE ON MARCH 24, 2016 TO REVIEW YEAR 2016

## 3. OUR REMARKS ON THE AGENDA TOPICS OF THE ORDINARY GENERAL ASSEMBLY ON MARCH 24, 2016

### 1. Opening and election of the Chairmanship Committee

The election of the Chairman who will preside the Ordinary General Assembly will be carried pursuant to the provisions of the “Turkish Commercial Code No. 6102” (TCC) and the “Regulation on the Procedures and Principles Applicable to Ordinary General Assemblies of Joint Stock Companies and the Representatives of the Ministry of Customs and Commerce to Attend Ordinary General Assembly” (the “Regulation” or the “General Assembly Regulation”), and article 7 of the General Assembly Internal Directive. The Chairman of the General Assembly will appoint at least one Secretary to record the minutes of the meeting in accordance with the General Assembly Internal Directive. The Chairman may also select sufficient number of vote collectors.

### 2. Presentation for discussion and approval of the 2016 Annual Report of the Company as prepared by the Board of Directors

Information on the 2016 Annual Report that also contains the corporate governance principles compliance report, which was made available to shareholders for review at the Company’s Head Office, on the Electronic General Assembly portal of the Central Registry Agency and on our Company’s website at [www.otokar.com.tr](http://www.otokar.com.tr) for three weeks preceding the Ordinary General Assembly, in line with the TCC, the Regulation and the regulations concerning the Capital Markets Law will be provided, and the 2016 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 2016 fiscal year

Information regarding the Independent Auditor’s Report prepared pursuant to the regulations of the Capital Markets Board and the TCC, which were made available to the shareholders for their review at the Company’s Head Office, on the Electronic General Assembly portal of the Central Registry Agency and on our Company’s website at [www.otokar.com.tr](http://www.otokar.com.tr) will be presented to the General Assembly.

### 4. Presentation for discussion and approval of the Financial Statements of the Company for the 2016 fiscal year

Information regarding our financial statements and statutory financial statements issued in line with Tax Procedure Law that were made available to shareholders for their review at the Company’s Head Office, on the Electronic General Assembly portal of the Central Registry Agency and on our Company’s website at [www.otokar.com.tr](http://www.otokar.com.tr) for three weeks preceding the Ordinary General Assembly pursuant to the TCC, the Regulation and the regulations concerning the Capital Markets Law will be presented for discussion by and approval of the shareholders.

### 5. Release of each member of the Board of Directors from liability for the affairs of the Company in 2016

Release of the members of the Board of Directors in respect of the activities, transactions and accounts in 2016 as per the provisions of the TCC and the Regulation will be presented to the approval of the General Assembly.

### 6. Approval, amendment, or refusal of the Board of Directors’ 2016’s profit distribution proposal prepared in line with the Company’s profit distribution policy

According to the financial statements for the accounting period of 01.01.2016-31.12.2016 prepared in compliance with the International Financial Reporting Standards in accordance with the provisions of Turkish Commercial Code and Capital Market Law, and audited by Başaran Nas Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş. (A Member of PricewaterhouseCoopers), the Company has earned a “Non-Consolidated Net Profit in the Period” amounting to TL 69,725,866-. The table regarding our profit distribution proposal, which was prepared by taking into account our Profit Distribution Policy, long-term group strategies, investment and financing policies, and the profitability and liquidity position in line with the Profit Distribution Communiqué II-19.1 and the Profit Distribution Guidelines announced in line with this Communiqué is provided in **ANNEX/1**.

## **7. Acceptance, amendment or rejection of the proposal of the Board of Directors regarding the amendment of Article 5 of the Company's Articles of Association titled "Headquarters and Branches of the Company" and Article 7 titled "Capital"**

The reflection of street name change made by the municipality regarding the address of the company's business center in the article 5 of the Company's Articles of Incorporation titled "Headquarters and Branches", as well as the extension of the validity period of the registered capital ceiling in Article 7 titled "Capital" shall be submitted to the approval of the General Assembly in **ANNEX/2** with related board of directors' resolution as Amendments to the Articles of Association. Approvals dated 13.02.2017 from the CMB and dated 17.02.2017 from the Ministry of Customs and Trade were taken for the aforementioned amendments to the articles of association.

## **8. Resolution on the number of the members of the Board of Directors and their terms of office, and election of the members of the Board of Directors in line with the resolved number and election of the independent members of the Board of Directors**

New members will be elected to take the place of the existing members of the Board of Directors whose office term has ended in accordance with the principles applicable to the election of the members of the Board of Directors as set forth in the Company's articles of association pursuant to CMB regulations, the TCC and the relevant regulations. In addition, independent member(s) will be elected to the Board in order to ensure compliance with CMB's Corporate Governance Communiqué II-17.1.

Pursuant to article 11 of the articles of association, the Company is managed by a Board of Directors formed by minimum 5 (five) members who are elected for maximum 3 years by the General Assembly as per the provisions of the Turkish Commercial Code. The General Assembly may resolve to renew the Board of Directors even if its office term has not yet ended.

Three of the nominees for membership to the Board of Directors, which is proposed to consist of nine members, must meet the criteria of independency as defined in CMB's mandatory Corporate Governance Principles.

Upon the proposal of the Corporate Governance Committee, which has evaluated the candidates presented to it, İsmet Böcügöz, Abdulkadir Öncül and Ahmet Nezih Olcay were nominated by the Board of Directors as Independent Members of the Board of Directors.

The curriculum vitae of the nominees for the Board of Directors and the declarations of independence of the independent members are provided in **ANNEX/3**.

## **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 the remuneration of the members of the Board of Directors and the senior management must be in writing and presented to the shareholders as a separate agenda topic, and the shareholders must be given the opportunity to express their views. The remuneration policy prepared for this purpose is provided in **ANNEX/4**. As stated in note 27 of the financial statements for the 2016 fiscal year, benefits amounting to a total of TL 12,500,000 were provided to the senior management by Otokar Otomotiv ve Savunma San. A.Ş. during 2016.

## **10. Resolution of the annual gross salaries to be paid to the members of the Board of Directors**

The amount of the annual gross salaries to be paid to the members of the board of directors during the 2016 fiscal year in accordance with the Remuneration Policy as presented to the approval of the shareholders in line with agenda topic 9 will be determined by the shareholders.

# INFORMATION DOCUMENT CONCERNING THE GENERAL ASSEMBLY TO CONVE ON MARCH 24, 2016 TO REVIEW YEAR 2016

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

In its meeting held on February 20, 2017, the Board of Directors resolved to appoint, in consultation with the Committee in charge of Audits, PwC Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş. (A member of PricewaterhouseCoopers) to audit the financial statements of the Company pertaining to the 2017 accounting period and to carry out the other tasks under the relevant regulations in accordance with the Turkish Commercial Code and the regulations of the Capital Markets Board. This appointment will be presented to the approval of the General Assembly.

## 12. Presentation to the shareholders, of the donations made by the Company in 2016, and resolution of an upper limit for donations to be made in 2017

According to article 6 of the Capital Market Board's Dividends Communiqué numbered II-19.1, the limit of donations should be determined by the General Assembly in the event that it is not addressed in the articles of association. Donations and payments made should be presented to shareholders at the General Assembly. The donations made to foundations and associations in 2016 amounted to TL 1,460,900. The upper limit of the donations to be made in 2017 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 the 2015 pursuant to the Corporate Governance Communiqué of the Capital Markets Board

Execution of transactions by the members of the Board of Directors within the framework of the first paragraph of article 395 titled "Ban on Execution of Transactions with the Company and on Borrowing from the Company", and article 396, titled "Ban on Competition", of the TCC can only be possible with the consent of the shareholders at the General Assembly.

Pursuant to CMB's mandatory Corporate Governance Principle 1.3.6, in the event that the shareholders with management control, the members of the Board of Directors, the senior executives with administrative authority, and their spouses and relatives related by blood or affinity up to the second degree enter into transactions that may result in significant conflict of interest due to their affiliations or related partnerships, and/or conduct a transaction on their own or others' behalf in an area that has the same commercial business as the corporation or its subsidiaries or enter another partnership that has the same commercial business as unlimited partner, the said transactions will be presented to the General Assembly under a separate agenda topic, and recorded in minutes of the Ordinary General Assembly.

In order to fulfill the requirements of these regulations, the issuance of such permission shall be submitted to the approval of our shareholders at the General Assembly, and our shareholders shall be informed about the transactions carried out during the year and the shareholders, board members, administrators, Some of the second degree relatives of blood and spirits are members of the board of directors of some other Koç Group companies, including those with similar activities with our Company. In 2016, there has been no transaction requiring information within the scope of Corporate Governance Communiqué Serial No. 1.3.6.

## 14. Wishes and opinions

### ANNEXES:

**ANNEX/1** Profit Distribution Policy and Profit Distribution Table pertaining to Distribution of the 2015 Profits (Pages 56-57)

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# GLOSSARY

**APV** Armoured Patrol Vehicle

**CBRN** Chemical, Biological, Radiological and Nuclear

**CMB** Capital Markets Board

**EBITDA** Earnings Before Interest, Taxes, Depreciation and Amortization

**EMC** Electromagnetic Compatibility

**EMI** Electromagnetic Interference

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

**İETT** Istanbul Electricity Tram and Tunnel Enterprises

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

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

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

**TCC** Turkish Commercial Code

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

**TÜRKAK** Turkish Accreditation Agency

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