

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ A.Ş.

THE REPORT ON ACTIVITIES WITH RELATED PARTIES FOR 2018

General Information

This report is prepared under Article 10 of the Corporate Governance Communique Serial II-17.1 (Communique) of Capital Markets Board of Turkey (CMB). In accordance with the aforementioned article, the Board of Directors of a publicly listed company should prepare a report, in case of foreseeing the ratio of the amount of common and continuous transactions between corporations whose stocks are traded in Borsa İstanbul and the subsidiaries of the corporation and its related parties within an accounting period, in which;

a) the ratio of the purchasing amount to the cost of goods sold in accordance with the last annual financial statements disclosed to the public

b) the ratio of sales to revenues based on the final annual financial statements in sales transaction,

exceeds 10% and this report including the market comparisons for such transaction should be announced via Public Disclosure Platform (KAP).

The purpose of this Report is to disclose the conditions of the transactions that are foreseen to be executed by OTOKAR OTOMOTİV VE SAVUNMA SANAYİ A.Ş. ("the Company" or "Otokar") in 2020 with related parties defined in the Turkish Accounting Standard No. 24 (TAS 24) related to Related Parties Transactions, providing that they are not considered as commercial secrets, and to demonstrate that the Company is not foreseen to be incurred any disadvantage as a result of such transactions when comparing with the conditions prevailing in the market, pursuant to the regulations of the Capital Market Board.

The detailed information about processes that have been carried out with the related parties of Otokar Otomotiv ve Savunma Sanayi A.Ş. within 2019 are disclosed in note 27 of our financial statements which is about the activities in 2019, and in this report, the condition of the transactions which are foreseen to be exceeded the limit of 10% of total transaction amount in 2020 financial year has been assessed.

Information about Otokar Otomotiv ve Savunma Sanayi A.Ş.

Otokar was established in 1963. Operating on the area of 552 thousand square meters factory in Sakarya, Arifiye. Otokar, offers tailored solutions to its clients with its technologies, designs and applications. A part of the Koç Group, Otokar produces buses, midibuses, light trucks and semitrailers in the commercial vehicles segment, and a variety of tactical wheeled and tracked armored vehicles and turret systems for the defense industry.

The issued capital of the Company is TL 24 million and the information about the shareholder structure is given below,

Shareholder	Share Amount (TL)	Equity Ratio (%)	Voting Right	Voting Right Ratio (%)
Koç Holding A.Ş.	10.722.749,81	44,68	1.072.274.980,90	44,68
Ünver Holding A.Ş.	5.954.943,83	24,81	595.494.383,00	24,81
Other	7.322.306,36	30,51	732.230.636,10	30,51
Total	24.000.000,00	100,00%	24.000.000.000	100,00%

The summary financial information about 2017-2019 financial years are given below,

(000 TL)	31.12.2017	31.12.2018	31.12.2019
Total Assets	2.009.587	2.302.746	2.677.717
Total Equity	283.554	389.586	637.646

(000 TL)	01.01.2017-31.12.2017	01.01.2018-31.12.2018	01.01.2019-31.12.2019
Net Sales	1.785.272	1.678.661	2.430.643
Cost of Sales	(1.313.646)	(1.085.704)	(1.511.592)
Net Profit	99.423	164.336	351.592

According to the aforementioned data, in accordance with the Communiqué, the Board of Directors report should be prepared for the transactions foreseen to exceed the amount of TL 151.159 thousand (2019 COGS * 10%) for procurement transactions and the total amount of TL 243.064 thousand (2019 Revenue * 10%) for sales transactions.

Information about the Related Companies being the subject of this Report

Ram Dış Ticaret A.Ş.

Ram Dış Ticaret A.Ş. (Ram) is registered to İstanbul Chamber of Commerce (İTO) with the registration number of 109050 and is engaged in the wholesale trade activities at the address Rüzgarlıbahçe Mahallesi, Cumhuriyet Caddesi, Energy Plaza, Kat:2 Beykoz, İstanbul, Turkey.

Ram Dış Ticaret A.Ş. was established on 16.11.1970 and currently its issued capital is TL 6 million. Field of activities of Ram Dış Ticaret A.Ş. are; all kinds of wholesale product trading, importing, exporting, making studies on domestic and international marketing and giving consultancy services to third parties. It creates additional value to group companies and also their sub-industry companies by acting as purchasing center in domestic iron and steel sector. It follows closely the markets on the basis of region and country and assess the business opportunities, through its offices located in North Africa, the Turkic Republics and Iraq. Thus,

different projects have been carried out, in different sectors, such as; energy, automotive, food, aid supplies and defense industry in recent years.

Al Jasoor Heavy Vehicle Industry LLC

Al Jasoor Heavy Vehicle Industry LLC established as a joint venture company in 2017 by our subsidiary Otokar Land Systems Limited (Otokar LS) and Heavy Vehicles Industries LLC (HVI) subsidiary of Tawazun Operations Company LLC (“Tawazun”) which is located in the United Arab Emirates, in order to cooperate with particular defense industry activities, especially in the United Arab Emirates and countries of the region. Subject to the principles of joint management, Otokar LS has 49% share and HVI has 51% share in Al Jasoor Heavy Vehicle Industry LLC joint venture company.

Information about the conditions of transactions executed with related persons/parties and consistency of such conditions with the prevailing market conditions

Sales of the Company and subsidiaries that were above the 10% threshold between 01.01.2019-31.12.2019 were made to Ram Dış Ticaret A.Ş. and Al Jasoor Heavy Vehicle Industry LLC, explanations about these transactions are given in the article 27 of Independent Auditor Report dated 31 December 2019.

Sales made to Ram Dış Ticaret A.Ş. is basically consisted of the export registered sales made to non-related third parties. The amount of the invoices, that are issued from Otokar to Ram and also from Ram to the third party (it buys the same products), remain the same. Ram Dış Ticaret A.Ş. only issues commission invoice for the activities it carries out.

In general, all negotiations with third parties, any contract, default risks and any potential risk associated with inventory are carried out, managed and followed by Otokar. Therefore, all risk are borne by Otokar, and Ram assists and manages operative and paperwork and in return of these services, it issues commission invoice. Ram issues invoices related to costs such as bank letter of guarantee commissions, freight expenses incurred in the name of Otokar during these activities. In addition, in the markets where the transaction is carried out, local regulations and market research services are taken from Ram.

As can be seen aforesaid description, when evaluating the essence of the process, rather than the volume of the export registered sales, the amount of commissions paid for the related transaction should be taken into account when determining the 10% threshold considering the commercial relations between Ram Dış Ticaret A.Ş. and Otokar. However, as issued invoices covers the entire amount of related transaction, the all sales are seen as related party transactions and therefore exceed 10% limit.

Within 2019, amount of TL 253,240 thousand sales transaction has been realized between the Company and related Ram Dış Ticaret A.Ş. and in the accounting period of 01.01.2019-31.12.2019 10.4% of the proceeds have been realized from the sales, the whole transactions are consisted of the export registered sales made to non-related third parties with exactly the same conditions. As a result of these sales in 2019, the total amount of commissions and acquired services paid to Ram is TL 65,582 thousand. The amount of commission accrued due to export registered sales, which is the principal counterpart of the transaction between the parties, is well below the limit determined in the communiqué and determined in accordance with the market conditions.

In 2017, as a result of the work carried out by Otokar and Tawazun, signed a sales contract that the main conditions of which are included in the material event disclosure dated 20.02.2017, to be realized by Al Jasoor. Revenues that Otokar will directly generate within the scope of project will be consist of vehicles, CKD (Completely Knocked Down) kit sales, technical consultancy and similar services revenue and dividends from Al Jasoor.

Within the scope of the agreement between Otokar LS and Al Jasoor Heavy Vehicle Industry LLC, the ratio of the sales realized in the note 27 of our publicly disclosed financial statements made in 2019 to our company's revenue in 2019 is 33.4%.

The entire sales transaction consisted of exports of armored vehicles under the contract between Otokar LS and Al Jasoor, and pricing was determined by negotiations between the parties, taking into account the characteristics, costs, final sale price and general market conditions of these vehicles.

Conclusion

Pursuant to Capital Market Board's Communique, article 10 of Serial: II, No:17.1; due to the fact that the amount of the Company's subsidiaries' common and ongoing product transactions with Ram Dış Ticaret A.Ş. and Al Jasoor Heavy Vehicle Industry LLC within 2020 accounting period is foreseen to be exceed 10% of the amount of revenue based on 2019 financial reports which was the latest and disclosed to the public, and the conditions of the transactions executing with Ram Dış Ticaret A.Ş. and Al Jasoor Heavy Vehicle Industry LLC are foreseen to be continued with the same conditions within 2020, pricing methods and reasons for choosing such methods are explained in this report and information regarding the compliance of the transaction with market conditions is provided.

NOTE: This report has been translated into English for informational purposes. In case of a discrepancy between the Turkish and the English versions of this disclosure statement, the Turkish version shall prevail.