

Board of Directors Report

Board of Directors Report of Otokar Otomotiv ve Savunma Sanayi A.Ş. for the Period 01.01.2013-31.12.2013

Dear Shareholders,

Our Company presents to the Annual General Meeting and the public its non-consolidated financial reports regarding its activities in 2013, and prepared in accordance with Turkish Accounting Standards/Turkish Financial Reporting Standards which were put into practice by Public Oversight Accounting and Auditing Standards Authority (KGK) 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.

The names, office terms and authority limits of the members who undertook duty at the Boards of Directors during the period are as follows (determined at the Annual General Meeting of Shareholders dated 27th March, 2013).

Board of Directors	Title	Beginning	Ending
Kudret Önen	Chairman	27.03.2013	28.03.2014
Halil İbrahim Ünver	Vice Chairman	27.03.2013	28.03.2014
Osman Turgay Durak	Member	27.03.2013	28.03.2014
Ali Tank Uzun	Member	27.03.2013	28.03.2014
Ahmet Serdar Görgüç	Member	27.03.2013	28.03.2014
Tuğrul Kudatgöbilik	Member	27.03.2013	28.03.2014
İsmet Böcügöz	Independent Member	27.03.2013	28.03.2014
Abdulkadir Öncül	Independent Member	27.03.2013	28.03.2014

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

Capital and Ownership Structures

As of December 31, 2013, the registered capital ceiling had been increased to TL 100 million. The issued capital stands at TL 24 million.

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

Shareholders	Amount of Shares (TL)	Stake (%)
Koç Holding A.Ş.	10,722,750	44.68
Ünver Holding A.Ş.	5,954,944	24.81
Diğer Ortaklar	7,322,306	30.51
Toplam	24,000,000	100.00

The remaining shares, at a par value of TL 7,322,306 representing 30.51% of our Company's capital, consist of listed shares and shares held by other shareholders.

Our Company has an affiliated company, "Otokar Europe SAS", which was established in France on 18th August, 2011 to organize export activities and increase exports. The company has 100% of its issued capital which is amounting to €100,000 (TL 293,650).

Amendments to the Articles of Association

Amendments made to the Articles of Association at the Annual General Meeting on 27th March, 2013 were as follows:

In order to comply with the provisions of the Turkish Commercial Code and Capital Market Board regulations, following articles of the Company's Articles of Association were amended: Article 3: Trade Name, Article 4: Objective and Subject, Article 5: Head Office and Branch Offices of the Company, Article 7: Registered Capital, Article 8: Increasing Registered Capital, Article 9: Issue of Bonds and Other Securities, Article 10: Board of Directors, Article 11: Board of Directors Meetings, Article 12: Authority of Board of Directors, Article 13: Binding the Company, Article 14: Other Provisions Related to Board of Directors, Article 15: Auditors, Article 16: Duties and Responsibilities of the Auditors, Article 17: General Meetings, Article 18: Number of Votes, Article 19: Quorum, Article 20: Voting Methods, Article 21: Submitting to the Ministry and Commissioner, Article 22: Accounting Period

The following articles were annulled: The article entitled “Provisional Article”, Article 23: Annual Reports, Article 24: Distribution of Profit, Article 25: Reserves, Article 26: Cancellation, article 27: Rescission and Dissolution, Article 28: Announcements, Article 29: Submitting Articles of Association to the Ministry and Capital Market Board, Article 30: Amendments to the Articles of Association, Article 31: Legal Provisions, Article 32: Compliance with the Principles Corporate Governance.

Dividends Distributed in the Last Three Years and Their Percentages

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

Period	%
2010	62.50
2011	200.00
2012	266.67

The entire dividend pertaining to the 2012 accounting period was paid to our shareholders in cash, starting from 3rd April, 2013.

Our shareholders may access the corporate and financial data of our Company at www.otokar.com.tr under the section “Investor Relations”.

The Automotive Sector and Otokar

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

On 29th July, 2008, Otokar signed an agreement with the Undersecretariat for Defence Industries to carry out Phase I: Design and Prototype Development of Turkey’s first Main Battle Tank, as part of the project of “Manufacturing a National Main Battle Tank” (namely, Project Altay). Having finalized the concept design in 2010, Otokar is currently working on the detailed design stage. A full-scale model of the ALTAY tank was exhibited to the public at IDEF 2011 in May. Additionally, Otokar opened Turkey’s first and only tank testing centre in March 2012. In November 2012, a prototype of the Altay tank was tested and displayed in a special ceremony.

In 2013, the project’s concept design and detailed design stages were completed. The Company then advanced to the third stage - “Prototype manufacturing and Qualification”.

The Market - Sales - Production

The developments observed in the sector during 2013 can be summarized as follows, based on the data obtained from the OSD (Automotive Manufacturers Association):

Total production of motor vehicles increased by 5% YoY to 1,126,000 vehicles between January-December 2013. The production of cars also grew by 10% YoY to 633,000, while the total market for motor vehicles grew by 9% YoY in 2013.

Developments in production for each vehicle segment in 2013 were as follows:

- In the light commercial vehicle segment;
 - 29% increase in minibuses,
 - 25% increase in midi-buses,
 - 4% decrease in pickups was recorded.
- In the heavy commercial vehicles segment;
 - 30% increase in buses,
 - 3% decrease in large size trucks,
 - 57% increase in small size trucks were recorded

When compared to 2012, total sales of imported light commercial vehicles dropped by 2%, and sales of locally manufactured light commercial vehicles dropped by 24% in 2013. The market share of imported vehicles stood at 48% in 2013.

Production and Sales

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

	2013		2012		Change (units)		Change (%)	
	Production	Sales	Production	Sales	Production	Sales	Production	Sales
Minibus	40	49	52	56	(12)	(7)	(23)	(13)
Small size bus	2,659	2,743	1,812	1,877	847	866	47	46
Bus	1,224	1,251	616	637	608	614	99	96
4x4 Tactical Vehicles	127	127	23	31	104	96	452	310
Armoured Tactical Vehicles	428	404	346	347	82	57	24	16
Trailers	769	768	1,191	1,190	(422)	(422)	(35)	(35)
Trucks	362	212	-	-	362	212	-	-
Total	5,609	5,554	4,040	4,138	1,569	1,416	39	34

According to our non-consolidated financial statements that were prepared according to the related regulations, the Company's 2013 revenue grew by 40%.

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

	2013 (TL)	2012 (TL)	Change (%)
Domestic Sales	1,175,900,196	744,330,923	58
International Sales	225,652,738	260,161,309	(13)
Total	1,401,552,934	1,004,492,232	40

Our total international sales totalled USD 117,458,384 in 2013 (2012: USD 145,785,646), with a 16% share (2012: 26%) in total turnover was 16%.

Our total capacity utilization in 2013 was 51% (2012: 37%).

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

Investments

In 2013 Otokar continued its investments in the "Otokar R&D Centre", which has been initiated in the previous years, by taking a crucial decision in the area of research and development with a view to achieving its rapid growth target with vehicles of which intellectual rights are owned by Otokar.

Total investments had amounted to approximately USD 8 million at the end of 2013.

Administrative Activities

The names and positions of the senior managers of our Company in 2013 were as follows:

Name-Last Name	Position
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 31st December, 2013 our Company had a total of 2,264 employees (2012: 2,281). Of these employees, 640 (2012: 595) were administrative and office personnel and 1,624 (2012: 1,686) were factory workers. There were no incidents of disputes or labour movements during the period.

Our Company is subject to the Collective Labour Agreement signed between the Turkish Metal Workers Union and MESS (Turkish Employers' Association of Metal Industries) on 3rd June, 2013, and which was in effect as of 1st September, 2012.

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 as per 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" is available on www.otokar.com.tr

Our Company's Corporate Governance Rating, increased from 86.80 (8.68) in 2012 to 91.03 (9.1) in 2013. In accordance with decisions taken during the Capital Market Board's meeting dated 1st February, 2013 and numbered 4/105, our rating was revised from 91.03 (9.10) were revised to 86.44 (8.64) on 3rd March, 2014.

Financial Results

Our Company presents its 2013 non-consolidated financial statements to the Annual General Meeting and the public. The financial statements were prepared in accordance with Turkish Accounting Standards/Turkish Financial Reporting Standards which were put into practice by Public Oversight Accounting and Auditing Standards Authority (KGK) pursuant to Capital Market Board's (CMB) "Communiqué on the Principles Financial Reporting in Capital Markets", numbered II-14.1. Appendices and comments related to these standards were also considered in preparing financial tables.

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

Our Company recorded TL 1,401,552,934 of revenue in 2012, and a gross profit of TL 315,010,875.

According to the financial statements prepared in accordance with Turkish Financial Reporting Standards, and as pursuant to CMB's regulations, our Company set aside a depreciation provision of TL 40,447,945, and a severance pay and guarantee provision of TL 9,877,742 in 2013, closing the year with a pre-tax profit of TL 108,248,320, and a net profit of TL 96,561,743 after tax.

Our Company will pay TL 43,676,005 in taxes for the year 2013, and its total tax expense, which includes deferred tax expenses and amounts to TL 11,686,577, is shown in the financial statements. Our Company's net profit after tax stood at TL 96,561,743.

In our Annual General Meeting dated 27th March, 2013, the upper limit of donations that will be made in 2013 was set as TL 2,100,000. In 2013 our Company provided tax-deductible donations and aid amounting to TL 2,038,442, to foundations and associations for charitable purposes.

A balanced and consistent policy is followed in distributing profit among shareholders and the Company's benefits 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.

We submit to your approval;

- the payment of gross=net cash dividend at the rate of 416.667% and in the amount of TL 4.16667 per share at par value of TL 1.00, to shareholders in unlimited taxpayer status and to shareholders in limited taxpayer status, who earn profit share through a business unit or a permanent representative in Turkey;
- the payment of net cash dividend at the rate of 354.167 %, and in the amount of TL 3.54167 per share at par value of TL 1.00, to other shareholders, as per the Profit Distribution Proposal attached herein;
- and that the beginning date of payment of the dividends amounting to TL 100,000,000 to be April 4, 2014, Friday. We have presented to you the summary of the activities and the results obtained in 2013.

Dear Shareholders,

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

Istanbul, March 3, 2014



Kudret Önen
Chairman