

Otokar

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ A.Ş.

1 JANUARY – 30 JUNE 2018

INTERIM REPORT

(TRANSLATION OF INTERIM REPORT ORIGINALLY ISSUED IN TURKISH)



OTOKAR OTOMOTİV VE SAVUNMA SANAYİ A.Ş.

01.01.2018 – 30.06.2018 INTERIM PERIOD

INTERIM REPORT

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

The members of the Board of Directors appointed at the Ordinary General Assembly Meeting on 15.03.2018 and served the Board during the reporting period are shown below.

BOARD OF DIRECTORS :

| <u>Name & Lastname</u> | <u>Title</u> |
|----------------------------|------------------------|
| Yıldırım Ali KOÇ | Chairman |
| Halil İbrahim ÜNVER | Vice Chairman |
| Osman Turgay DURAK | Member |
| Levent ÇAKIROĞLU | Member |
| Kudret ÖNEN | Member |
| Ahmet Serdar GÖRGÜÇ | Member-General Manager |
| Ahmet Nezih OLCAY | Independent Member |
| Ali İhsan KAMANLI | Independent Member |
| Kenan GÜVEN | Independent Member |

Our Board of Directors started to serve on March 15, 2018 and would be serving until Ordinary General Assembly Meeting in order to audit 2018 accounts.

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 | Ahmet Nezih OLCAY | Ali İhsan KAMANLI |
| Risk Management Committee | Kenan GÜVEN | Kudret ÖNEN |
| Corporate Governance Committee | Ahmet Nezih OLCAY | Levent ÇAKIROĞLU Hüseyin ODABAŞ |

Partnership and Capital Structure

As of June 30, 2018, our Company's registered capital ceiling is TL 100 million, and the issued capital is TL 24 million.

Following is a list showing shareholders with more than 10% of the Company capital, their shares, and their ratio in our capital:

| <u>Shareholder Title</u> | <u>Share Amount (TL)</u> | <u>Share %</u> |
|---------------------------------|---------------------------------|-----------------------|
| Koç Holding A.Ş. | 10.722.750 | 44,68 |
| Ünver Holding A.Ş. | 5.954.944 | 24,81 |
| <u>Other</u> | <u>7.322.306</u> | <u>30,51</u> |
| Total | 24.000.000 | 100,00 |

The parent company Koç Holding A.Ş. is controlled by Koç Family and the companies owned by Koç Family. Shareholder, Ünver Holding A.Ş., is controlled by Ünver Family. The balance representing 30.51% of our capital consists of shares with a nominal value of TL 7.322.306, other shareholders and publicly held shares.

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

| Legal name | Nature of operation | Country | Capital | Ownership(%) |
|-------------------|----------------------------|----------------|-------------------------------------|---------------------|
| Otokar Europe SAS | Sales and Marketing | France | Euro 100 thousand (239 thousand TL) | 100.00 |

Also, the Company completed establishment procedures of "Otokar Land Systems LLC," established in the United Arab Emirates with a capital of AED 50.000 (TL 41.398) 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 which took place on March 15, 2018.

Dividends Distributed in the Last Three Years and their Ratios:

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

| <u>Period</u> | <u>%</u> |
|---------------|----------|
| 2015 | 300,00 |
| 2016 | 250,00 |
| 2017 | 291,67 |

The Company made cash payments regarding all the 2017 accounting period dividends to its shareholders on March 22, 2018.

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

AUTOMOTIVE INDUSTRY AND OTOKAR

Otokar operates in the automotive industry's commercial vehicles segment. Its product range consists of minibuses, midibuses and 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/tracked military vehicles, and tanks and their variants for the defense 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.

Considering the recession and low growing potential expectation in the trailer market, the company is relied on the products that have higher added value in terms of production activities.

Within the scope of the "Modern Tank Production Project using National Sources" signed on July 29, 2008 between Otokar and the Undersecretariat for Defense Industries, it is reported to our company by Undersecretariat for Defence Industries (SSM) on April 25, 2018, that the Serial Production of Altay Project offer has been evaluated in all aspects. In accordance with the decision of Defence Industry Executive Committee (SSIK), the agreement for the Serial Production of Altay Project is found appropriate to be fulfilled by other bidder.

MARKET – SALES - PRODUCTION

We can summarize the industry-specific developments in the first six months of 2018 in line with the OSD (Automotive Manufacturers Association) data as follows:

- Total vehicle production recorded year on year decrease by 3% to 843.193 units in the January-June 2018 period, while the automobile production decrease by 7% to 557.269 units. The transportation vehicle market in the first six months of 2018 decrease by 11% with 366.487 units, while automobile market decrease by 10% with 275.870 units compared to first six months of 2017.

In the first six months of 2018, vehicle segment-based production showed the following developments year on year;

- Light Commercial Vehicles Segment;
 - 3% increase in minibus
 - 38% increase in midi-bus
 - 6% increase in pickup

- Heavy Commercial Vehicles Segment;
5% decrease in bus
56% increase in large size truck
4% decrease in minor size truck production fared at the previous year.
- The imported light commercial vehicle sales recorded 20% year-on-year decrease in the six months of 2018, while the domestic light commercial vehicle sales decreased by 17%.

The imports had 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:

| | <u>2018 1H</u> | | <u>2017 1H</u> | | <u>Change (Units)</u> | | <u>Change %</u> | |
|-----------------------|-------------------|--------------|-------------------|--------------|-----------------------|--------------|-------------------|--------------|
| | <u>Production</u> | <u>Sales</u> | <u>Production</u> | <u>Sales</u> | <u>Production</u> | <u>Sales</u> | <u>Production</u> | <u>Sales</u> |
| Small Bus | 736 | 720 | 429 | 629 | 307 | 91 | 72 | 14 |
| Bus | 155 | 142 | 235 | 235 | (80) | (93) | (34) | (40) |
| 4x4 Off-road Vehicles | - | 2 | 23 | 23 | (23) | (21) | (100) | (91) |
| Armored Vehicles | 13 | 19 | 283 | 292 | (270) | (273) | (95) | (93) |
| Trailer | 135 | 158 | 182 | 158 | (47) | - | (26) | - |
| Truck | 169 | 155 | 119 | 129 | 50 | 26 | 42 | 20 |
| TOTAL | 1208 | 1196 | 1271 | 1466 | (63) | (270) | (5) | (18) |

According to our consolidated financial statements prepared in line with the relevant legislation, Our Company's first six month of 2018 revenue decreased by 49% compared to same period of last year.

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

| | <u>2018</u> | <u>2017</u> | <u>Change %</u> |
|----------------|---|---|-----------------|
| | <u>(January-June)</u> <u>(Thousand TL)</u> | <u>(January-June)</u> <u>(Thousand TL)</u> | |
| Domestic Sales | 331.870 | 759.511 | (56) |
| Export Sales | 156.289 | 201.717 | (23) |
| TOTAL | 488.159 | 961.228 | (49) |

Our export total sales amounted to USD 37.978 in first six months of 2018 (USD 55.865 in first six months of 2017) accounting for 32% of the total turnover. (2017: 21%)

In the first six months of 2018, our capacity utilization was 19%. (2017: 19%)

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 defense 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

The "Otokar R&D Center" investments that started several years ago following a major decision to accelerate research and development with the aim of attaining the rapid growth targeted in vehicles with owned intellectual property rights continued in 2018.

Our Company's total investments amounted to USD 3 million in the first six months of 2018.

ADMINISTRATIVE ACTIVITIES

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

| <u>Name & Lastname</u> | <u>Title</u> |
|-----------------------------------|--|
| Ahmet Serdar GÖRGÜÇ | General Manager |
| Hüseyin ODABAŞ | Assistant General Manager-Finance |
| Ali Rıza ALPTEKİN | Assistant General Manager- Commercial Vehicles |
| Murat ULUTAŞ | Assistant General Manager-Engineering |
| Hasan Basri AKGÜL | Assistant General Manager-Sales and Marketing |
| Uğur Sedef VEHBİ | Assistant General Manager- Military Vehicles Marketing and Sales |

As of 30 June 2018 our Company has 2.078 employees in total (June 30, 2017: 2.219).

648 are administrative and office employees, and 1.430 are field employees. (June 30, 2017: 705 office employees, 1.514 field employees).

No incidents of disputes or labor 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 January 30, 2018, and which came into force as of September 1, 2017.

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

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

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 2017 Otokar Sustainability Report, which can be accessed on the corporate website www.otokar.com

FINANCIAL RESULTS

Our Company presents to the public its 2018 first six months consolidated financial statements, which have been prepared in accordance with the Turkish Accounting Standards/Turkish Financial Reporting Standards that were implemented by the Public Oversight Accounting and Auditing Standards Authority (POA) pursuant to Capital Markets Board's (CMB) "Communiqué on the Principles of Financial Reporting in Capital Markets", numbered II-14.1. Appendices and comments related to these standards were also considered in preparing consolidated condensed financial statements.

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

The consolidated revenues of our company as of June 30, 2018 totaled TL 488.159 thousand while we posted TL 102.188 thousand in gross profit.

Pursuant to CMB regulations and according to consolidated financial statements prepared in accordance with Turkish Financial Reporting Standards, the Company has posted a loss of TL 86.020 thousand before tax, and a net loss of TL 78.719 thousand in the first six months of 2018.

FINANCIAL RATIOS

Our Company presents to the public its 2018 first six months consolidated condensed financial statements as of 30.06.2018 on our company website and KAP (Public Disclosure Platform). Our Company's financial and profitability ratios are presented below in comparison to the figures of the previous year:

| | 30.06.2018 | 31.12.2017 |
|---|------------|------------|
| Liquidity Ratios | | |
| 1- Current Ratio (Current Assests / Short Term Liabilities) | 1,57 | 1,52 |
| 2- Liquidity Ratio ((Current Assests-Inventories) / (Short Term Liabilities)) | 1,02 | 1,14 |
| Financial Leverage Ratios | | |
| 1- Total Debt to Total Assets Ratio ((Short Term Liabilities+Long Term Liabilities / Total Assests)) | 0,94 | 0,86 |
| 2- Equity / Total Debt Equity (Equity / (Short Term Liabilities+Long Term Liabilities)) | 0,07 | 0,16 |
| | 30.06.2018 | 30.06.2017 |
| Profitability Ratios | | |
| 1- Sales Profitability Ratios (Pre-Tax Profit / Net Sales) | (0,18) | 0,03 |
| 2- Return on Assets (Pre-Tax Profit / Total Assests) | (0,04) | 0,02 |
| 3- Return on Equity (Net Profit / Equity) | (0,58) | 0,13 |

İstanbul, August 3, 2018

Hüseyin ODABAŞ
Assistant General Manager
Finance

Ahmet Serdar GÖRGÜÇ
General Manager

