

Otokar

OTOKAR OTOMOTİV VE SAVUNMA SANAYİ A.Ş.

1 JANUARY - 31 MARCH 2019

INTERIM REPORT

(TRANSLATION OF INTERIM REPORT ORIGINALLY ISSUED IN TURKISH)



OTOKAR OTOMOTİV VE SAVUNMA SANAYİ A.Ş.
01.01.2019 - 31.03.2019 INTERIM PERIOD

INTERIM REPORT

The consolidated financial statements of our Company reflecting the first quarter of 2019 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 18.03.2019 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
Levent ÇAKIROĞLU	Vice Chairman
Selin Ayla ÜNVER	Member
İsmail Cenk ÇİMEN	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 18, 2019 and would be serving until the Ordinary General Assembly Meeting in order to audit 2019 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	İsmail Cenk ÇİMEN
Corporate Governance Committee	Ahmet Nezih OLCAY	Levent ÇAKIROĞLU Hüseyin ODABAŞ

The revised working principles of the committees are available on the Company's website.

Partnership and Capital Structure

As of March 31, 2019, 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 subsidiaries and participations of the Company subject to consolidation is as follows:

<u>Subsidiaries</u>	<u>Country</u>	<u>Nature of operation</u>	<u>Area of activity</u>
Otokar Europe SAS	France	Sales and Marketing	Automotive
Otokar Land Systems Limited	United Arab Emirates	Sales and Marketing	Automotive
Otokar Europe Filiala Bucuresti SRL	Romania	Sales and Marketing	Automotive

<u>Participation</u>	<u>Country</u>	<u>Nature of operation</u>	<u>Area of activity</u>
Al Jasoor Heavy Vehicle Industry LLC	United Arab Emirates	Sales and Marketing	Automotive

Also, the Company's participation Al Jasoor Heavy Vehicle Industry LLC (Al Jasoor) which owns 49% of Otokar Land Systems LLC was established on May 28,2017 in the United Arab Emirates, for the purpose of automotive sales and marketing. Otokar Land Systems Limited is followed under the section "Investments accounted with equity method" in the financial statements.

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 18,2019.

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>
2016	250,00
2017	291,67
2018	300,00

The Company made cash payments regarding all the 2018 accounting period dividends to its shareholders on March 25, 2019.

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 light trucks under the brand Atlas for the transportation and logistics industry.

MARKET – SALES - PRODUCTION

We can summarize the industry-specific developments in the first quarter of 2019 in line with the OSD (Automotive Manufacturers Association) data as follows:

- Total vehicle production recorded year on year decrease by 15% to 361.516 units in January-March 2019 period, while the automobile production decrease by 16% to 238.822 units. The transportation vehicle market decrease by 45% with 90.888 units in the first three months of 2019, while automobile market decrease by 44% with 68.812 units compared to first three months of 2018.

In the first quarter of 2019, vehicle segment-based production showed the following developments year on year;

- Light Commercial Vehicles Segment;
 - 28% increase in minibus
 - 52% decrease in midi-bus
 - 15% decrease in pickup
- Heavy Commercial Vehicles Segment;
 - 6% increase in bus
 - 24% decrease in large size truck
 - 90% decrease in minor size truck
- The imported light commercial vehicle sales recorded 48% year-on-year decrease in the first quarter of 2019, while the domestic light commercial vehicle sales decreased by 43%.

The imports had 46% 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>2019 1Q</u>		<u>2018 1Q</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	151	122	372	348	(221)	(226)	(59)	(65)
Bus	230	297	57	50	173	247	304	494
Armored Vehicles	38	12	13	19	25	(7)	192	(37)
Trailer	-	-	74	83	(74)	(83)	(100)	(100)
Truck	-	41	111	116	(111)	(75)	(100)	(65)
TOTAL	419	472	627	616	(208)	(144)	(33)	(23)

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

Our Company's 2019 first quarter revenue increased by 66% 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>2019</u>	<u>2018</u>	<u>Change %</u>
	<u>(January-March)</u> <u>(Thousand TL)</u>	<u>(January-March)</u> <u>(Thousand TL)</u>	
Domestic Sales	114.031	185.749	(39)
Export Sales	305.039	66.636	358
TOTAL	419.070	252.385	66

Our export total sales amounted to USD 56.770 thousand in the first quarter of 2019 (USD 17.469 thousand in the first quarter of 2018) accounting for 73% of the total turnover. (2018 1Q: 26%)

In the first quarter of 2019, our capacity utilization was 13%. (2018: 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 2019.

Our Company's total investments amounted to USD 523.000 in the first quarter of 2019.

ADMINISTRATIVE ACTIVITIES

The names and positions of the Senior Executives of our Company in 2019 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
Uğur Sedef VEHBİ	Assistant General Manager-Military Vehicles Marketing and Sales
Hasan Basri AKGÜL	Assistant General Manager-Domestic Sales and Marketing

As of 31 March 2019 our Company has 2.035 employees in total (December 31, 2018: 1.966). 637 are administrative and office employees, and 1.398 are field employees (December 31, 2018: 630 office employees, 1.336 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 93.51 (9.35) in 2018 to 94.02 (9.40) in 2019.

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 2019 first quarter consolidated financial statements, which have been prepared in accordance with the Turkish Financial Reporting Standards (TFRS) 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 quarter of 2019 are also presented for your information.

The consolidated revenues of our company as of March 31, 2019 totaled TL 419.070 thousand while gross profit totaled TL 103.611 thousand.

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 18.287 thousand before tax, and a net loss of TL 10.952 thousand in the first quarter of 2019.

FINANCIAL RATIOS

As of March 31, 2019 our Company presents to the public consolidated condensed financial statements 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:

	31.03.2019	31.12.2018
Liquidity Ratios		
1- Current Ratio (Current Assests / Short Term Liabilities)	1,50	2,08
2- Liquidity Ratio ((Current Assests-Inventories) / (Short Term Liabilities))	0,92	1,28
Financial Leverage Ratios		
1- Total Debt to Total Assets Ratio ((Short Term Liabilities+Long Term Liabilities / Total Assests))	0,89	0,83
2- Equity / Total Debt Equity (Equity / (Short Term Liabilities+Long Term Liabilities))	0,13	0,20
	31.03.2019	31.03.2018
Profitability Ratios		
1- Sales Profitability Ratios (Pre-Tax Profit / Net Sales)	(0,04)	(0,12)
2- Return on Assets (Pre-Tax Profit / Total Assests)	(0,01)	(0,02)
3- Return on Equity (Net Profit / Equity)	(0,04)	(0,15)

İstanbul, 7 May 2019

Hüseyin ODABAŞ
Assistant General Manager
Finance

Ahmet Serdar GÖRGÜÇ
General Manager