

# Otokar

## OTOKAR OTOBÜS KAROSERİ SAN. A.Ş

### ANNUAL REPORT

#### CONTENTS

INTRODUCTION .....	2
OTOKAR IN YEAR 2003 .....	3
CHAIRMAN'S MESSAGE.....	7
LAND ROVER DEFENDER .....	9
ARMOURED VEHICLES .....	10
MINIBUSES.....	11
SMALL BUSES.....	13
TRAILERS, SEMI-TRAILERS .....	15

# Otokar

## INTRODUCTION

### **Vision:**

Otokar maintains its local and national identity by developing its own technology; and aims at ensuring continued satisfaction of its customers, employees, and shareholders, with its total perfection philosophy.

### **Mission:**

The main task of Otokar is to design, manufacture, and market the commercial vehicles and various defence industry products with worldwide competitive qualifications, in line with the customer expectations.

### **Principles:**

Otokar aims at a sound development, and at offering products and services at universal quality and standards, by ensuring the satisfactions of its customers, along with its employees, within the framework of the targets and principles set by the Koç Group. It's goal is hence to be the symbol of reliability, continuity, and respect for its country, customers, shareholders, and subsidiary industry. Otokar considers its customers as its patrons, always strives to be the "best", knows that its major capital is its human resource, and targets to contribute to the Turkish economy, its source of power, in order to maintain its continuous growth and create resources, observing the superior business ethics and labour principles.

# Otokar

## OTOKAR IN YEAR 2003

### ALWAYS THE INNOVATOR, PIONEERING THE UNTOUCHED - FOR 40 YEARS

The rooted automotive manufactures of Turkey, Otokar, has been offering solutions specific for the needs of its customers with its own technology, designs and applications since 1963. The product range of Otokar consists of mini and midi busses for the mass transportation and commuting sectors, 4x4 off-road vehicles under the licence of Land Rover Defender for the defence industry, wheeled light armoured vehicles; and semi-trailers under the licence of Fruehauf for the transport and logistics sectors.

Being one of the most rooted automotive companies of the Turkish automotive industry, Otokar has continued being a creator of innovations, pioneer in the commercial vehicles and defence sectors, with its capacity of research, development, and production, during 2003, 40<sup>th</sup> anniversary of its establishment.

	<u>2003</u>		<u>2002</u>		<u>Change</u>		<u>Change %</u>	
	<u>Prod. Sales</u>		<u>Prod. Sales</u>		<u>Prod. Sales</u>		<u>Prod. Sales</u>	
Minibuses	1,237	1,236	772	788	465	448	60	57
Off-Road Vehicles	565	551	659	663	(94)	(112)	(14)	(17)
Armoured Vehicles	99	91	54	40	45	51	83	128
<b>Small buses</b>	<b>613</b>	<b>629</b>	<b>62</b>	<b>41</b>	<b>551</b>	<b>588</b>	<b>889</b>	<b>1,434</b>
<b>Trailers</b>	<b>860</b>	<b>865</b>	<b>755</b>	<b>750</b>	<b>105</b>	<b>115</b>	<b>14</b>	<b>15</b>
<b>TOTAL</b>	<b>3,372</b>	<b>3,372</b>	<b>2,302</b>	<b>2,282</b>	<b>1,072</b>	<b>1,090</b>	<b>47</b>	<b>48</b>

# Otokar

	<u>Inflation-Corrected Turnovers</u>		<u>Change</u>
	<u>2003 (Million TL)</u>	<u>2002 (Million TL)</u>	<u>%</u>
Domestic Sales	156,656,156	86,829,529	80
International Sales	40,837,994	44,069,171	(7)
<b>TOTAL</b>	<b>197,494,150</b>	<b>130,898,700</b>	<b>51</b>

## - **Mass transportation**

During year 2003, Otokar has stepped into the field of mass transportation with its 14-seat M2000 minibus intended mainly for paratransit lines in metropolitan areas, and 25-27 seat capacity Sultan midibus, which had been introduced to the market by the end of 2002, and was mainly used for commuting and touring purposes.

Having recorded a growth even surpassing that of the mass transport sector during year 2003, started the first customised series application Turkey last year, and became a distinguished player in the market with its M2000 Platinum series launched in memoriam of the 40<sup>th</sup> anniversary. Another striking fact during 2003 was that the Sultan small buses, which were offered to the mass transportation market in line with the requests and needs of the users, reached a record-breaking market share of 21 percent within its first year of launch.

## - **Trailers/Semi-trailers**

Otokar exists in the logistics and transportation sector with its trailer and semi-trailer application under the licence of Fruehauf, one of the leading brands of Europe. It is one of the top companies of the sector with its range of products extending from tankers to textile carriers, refrigerated vehicles to automobile carriers.

The first and only production of ADR (European Agreement concerning the International Carriage of Dangerous Goods by Road)-approved aluminium liquid-fuel tanker semi-trailers was started at Otokar during year 2003.

Having passed the ISO9001 Scope Extension Audit successfully in year 2003, Otokar has become the first and only ISO9001-certified trailer manufacturer in the field of trailer manufacture industry in Turkey.

## - **Defence Industry**

Otokar is one of the leading manufacturers in Europe in respect to the manufacture of Land Rover Defender under the licence of Land Rover; and is the pioneer of the defence industry with the globally-recognised wheeled armoured vehicles of its own design and production.

Having manufactured the first armoured vehicle of Turkey, Otokar has continued to realise the innovations in the sector during year 2003. With Otokar-Yavuz, the first 8x8 tactical wheeled armoured vehicle of Turkey, and "Sakarya", the first all-terrain armoured vehicle of Turkey, were added to the Otokar family of armoured vehicles.

# Otokar

Otokar has thus completed during year 2003 its armoured vehicles product range from 3.6 tons to 20.

## - Dealer and Service Network

Resolute to carry to the segment of commercial vehicles its achievements in the defence industry, Otokar has commenced in year 2003 the operation of expansion of its dealer and authorised service network. 3 new dealers and 8 new authorised services joined the Otokar Family during 2003.

## - Human Resources

2003 has been one of the years in which Otokar grew in terms of employment. As of the end of year 2003, the total number of employees of Otokar is 798. In the same year the Koç Group Human Resources applications were adopted in year 2003; and operations such as performance assessment, potential assessment, etc. commenced.

Otokar celebrated its 40<sup>th</sup> anniversary of establishment with a night attended by its employees, at the Izmit International Fair Centre on 25<sup>th</sup> December. Some 800 Otokar employees attended the meeting.

40 employees with the longest terms of service at Otokar were given the “40 Golden Men” Award at the meeting. Having entered the stage with the very vehicles they had manufactured, the “40 Golden Men” received their awards from the hands of Mr. Kudret Önen, General Manager; Mr. Selçuk Gezdur, Chairman of the Board of Directors; Mr. Halil Ünver, Assistant Chairman of the Board of Directors; and Mr. Jan Nahum, former General Manager of Otokar; and gave utterance to their pride for working at Otokar, and how much they felt happy for being part of such a great family. All the Otokar employees who had contributed to its achievement autographed, to symbolise the confidence they have in the vehicles they manufactured, the Sultan115L, which had been manufactured specially in memoriam of the 40<sup>th</sup> anniversary.

## - Efficiency

Otokar works with the aim of performing a more efficient work day by day. Great leaps forward were made during year 2003 in the field of efficiency-related operations. Infrastructure of the information systems was renewed in the field of information technologies. In the field of material movements, efficiency was increased as a result of the adoption of the automatic loading system, stock-taking system, stock control infrastructure, material and spare parts tracking systems, etc. Operations such as new equipment investments, assembly area arrangements, etc. were continued in order to enhance the production efficiency.

## - Otokar, Aware of its Responsibilities

Being a company aware of its public responsibilities, Otokar assumes an active role in connection with the protection and support of the environment in its every operation, and invests in the future. In this context, during 2003, the international

# Otokar

triathlon championship was sponsored, traineeship opportunities were made available for 70 university students, 14 Vocational College Automotive Department students, and 45 Industrial Vocational High School students. Besides, within the scope of the “University-Industry” cooperation which had been supported since year 1998, ten students of the Automotive Department of Vocational College of Sakarya University completed their practical education at Otokar.

In respect of the protection and improvement of its environment, Otokar realised environmental forestation works with its employees during year 2003. In that year, our Company abandoned the usage of LPG, and switched to natural gas at our Arifiye plant.

# Otokar

## CHAIRMAN'S MESSAGE

2003 has been a year in which Otokar has reproved how a powerful, pioneering, and successful company it was in its niche markets. Otokar introduced further innovations and records in the field of automotive. Having never compromised on its superior performance even during all those crises suffered, Otokar has once more made us all proud during 2003 which was a period of favourable developments nationwide. The inflation-corrected turnover of Otokar in year 2003 has been TL 197,494,150m, and the net profit of the period TL 8,120,714m.

I am proud of saying that this superior performance of Otokar was mainly derived from commercial vehicles. As you know, we went on operating in the commercial vehicles sector with only the manufacture of the 14-seat minibuses, after the 1980's. During such time, we have made considerable achievements in the defence industry. During the recent years, we have decided to resume growing in a field where we are experienced, and carried our success in the defence industry to the commercial field within a short period.

This is a proof of the strength, commitment, dynamism, and technological and industrial superiority of Otokar. We believe that the only company is Otokar who could ever exhibit such superior performance in many niche markets from minibuses to midi, from trailer to armoured and even off-road vehicles.

In all our operation during year 2003 we have fully adapted ourselves to the strategies of the Koç Group of Companies, and succeeded to achieve the target of the Koç Holding of "being the Group closest to the consumer". In year 2003, we continued to design vehicles addressed to the needs and requirements of our consumers, meeting the expectations of the market; to develop such vehicles with our own technology; and maintained our steady growth.

The last year have been one during which Otokar merged its experience, accumulated know-how, R&D and designing capabilities with new products; maintained its leadership in the niche markets.

Launched by our Company by the end of year 2002, the Sultan midibus has been a highly popular product within as short as one year, and achieved a record-breaking market share of some 21 percent in year 2003. Obtained within one year only, this achievement is indeed a rare one. Another development in the field of mass transportation, the M2000 Platinum, which was manufactured specially in memoriam of our 40<sup>th</sup> anniversary, is the best example of the customised series application in the Turkish automotive industry.

The year 2003 has also been one during which we started to harvest the results of our operations the semi-trailer segment, which had been a newcomer in our range of products as a result of the merger with Messrs. Istanbul Fruehauf. As we reached a market share of 20 percent in this segment in 2003; we have made various unique innovations in the trailers field of the Turkish transportation sector.

# Otokar

We have accomplished all these advancement through our own technology, R&D resources, and creativity. We have been the Company who develops the most innovative products and services in the Turkish automotive industry.

As far as the export business is concerned, the post-war Iraqi market has been one of the outstanding markets for Otokar. Sultan small buses were the first ones sold to the Iraqi market after the war. Among the companies whose contracts had been suspended due to the war, we were one of the first ones whose contracts were reactivated, and we exported the Fruehauf-brand tankers to the post-war Iraqi market.

In addition to our successful start in the segment of commercial vehicles during 2003, we have also taken huge leaps forward in our military sector related business. We as Otokar, with our target to be always the innovators of the Turkish defence industry, to raise it to a level above the world standards, have continued to offer to the service of the defence industry our 4x4 Land Rover Defender versions, as well as the globally recognised armoured vehicles, which were developed by Otokar engineers.

During year 2003, within the framework of the agreement signed with Messrs. Singapore Technologies Kinetics, "Otokar-Yavuz," the first tactical wheeled armoured vehicle of Turkey, and "Sakarya", the first all-terrain (including snow and mud-covered) armoured vehicle of Turkey, have joined the armoured vehicles range of Otokar. Thus, we have completed our armoured vehicles product range from 3.6 tons to 20, and maintained our position in the Turkish defence industry.

I feel very proud and happy to witness this performance of Otokar, who has been continually growing. We have strong commitments and great challenges in all the fields we operate in. Our long-term target of growing and expanding our product range is the best proof of this resolution and challenge of ours. The years before us will be ones in which Otokar will become much larger in the defence and commercial vehicle industries. Our work is in progress toward adding larger vehicles to the Sultan range in the commercial segment in particular. I believe that Otokar will become one of the indispensable names of this segment too, thanks to its leap forward commenced in the field of small buses.

In line with the targets of Koç Holding, our main goal during 2004 will be the achievement of a rapid and profitable growth, obtaining a profit above our capital cost by an average growth rate of 14 percent, and creating value for our shareholders.

Selçuk Gezdur  
Chairman

# Otokar

## LAND ROVER DEFENDER

**“Otokar, is one of the worldwide leading manufacturers of Land Rover Defender with its approximately 40 versions”**

During year 2003, Otokar manufactured under the licence of Land Rover 565 units of Land Rover Defender, most of them being for international markets; and sold 551 in total.

In addition to its sale of vehicles, Otokar has also sold various types of Land Rover Defender spare parts in significant quantities in year 2003.

Otokar exhibited its Land Rover Defender vehicles at IDEF 2003, the most important domestic fair of the defence industry. Some of the weapon-carrying vehicles that can be utilised by the Turkish Armed Forces, Land Rover Milan, 40mm-bomb thrower, 81mm-mortar carrier, “Engerek” special operations vehicle, and the radio communication vehicle samples were introduced to the visitors of the stand. Besides, the “Land Rover Mobile Reparation Vehicle,” which was needed for field- reparation of vehicles and systems was another vehicle exhibited at IDEF.

# Otokar

## ARMOURED VEHICLES

### **“Range of armoured vehicles from 3.6 tons to 20”**

Otokar continued its successful performance in the field of military vehicles during year 2003 as well. In the segment of armoured vehicles, 30 units of armoured vehicles were sold to various institutions at home. Within the scope of the agreement made for 161 armoured vehicles to be manufactured at our Arifiye works and exported, 69 armoured vehicles were manufactured, and 61 exported within the year 2003. Furthermore, various versions of armoured vehicles were sent for trial and testing purposes both at home and abroad.

Being the leader of the Turkish defence industry in the field of tactical and armoured vehicles, Otokar introduced an innovation in the segment of armoured vehicles in Turkey, as well. Following the preliminary agreements signed in year 2002 between Otokar and Messrs. Singapore Technologies Kinetics (STK), the world’s leading ground systems engineering company in defence industry, the agreements regarding joint development of “Otokar-Yavuz”, and manufacture of the armoured vehicle “Sakarya” were signed in 2003. Within the framework of the above-mentioned agreements, Otokar added to its range of products “Otokar-Yavuz”, the first 8x8 tactical wheeled armoured vehicle of Turkey, and “Sakarya”, the first all-terrain armoured vehicle project in Turkey.

The prototype of Otokar-Yavuz, which had been custom-developed according to our local conditions, and “Sakarya” were introduced to the Turkish and foreign visitors of the IDEF International Defence Industry Fair organised at Ankara for the first time.

The development work of Otokar-Yavuz, which was being planned to deliver to the Turkish Land Forces for trial purposes in year 2004, was started following the fair. Trial work has been started in various zones for Sakarya, which was added to the range of products in order to meet an important need of the Turkish Armed Forces, under the armour protection on any kinds of terrains such as those heavily covered with snow and mud, silt, sand, etc.

Otokar has completed with Otokar-Yavuz and Sakarya its armoured vehicles product range from 3.6 tons to 20.

# Otokar

## MINIBUSES

### **“The only customised-series application in the Turkish automotive sector”**

In the minibuses market during year 2003, vehicle sales were increased by 42 percent compared to the previous year, and 8,717 vehicles were sold. The increase in retail sales of Otokar surpassed with 57 percent the market's average in terms of number of units sold. Otokar sold 1,236 units during 2003, and increased its market share by 10 percent according to the previous year.

While being the second supplier in the market of minibuses during 2003, Otokar maintained its position as the leader of the market with a share of 96 percent in the 14-seat mass transportation niche market.

During 2003, Otokar continued its Customised Series application, which is an innovation in the Turkish automotive sector. M2000 Platinum series was produced in memoriam of the 40<sup>th</sup> anniversary. Manufactured in a limited number, M2000 Platinum was launched with its special plate, serial number indicating its position in the production line, and its special 40<sup>th</sup>-anniversary key holder. The series, which were demonstrated for the first time at the İzmir International Fair on 26<sup>th</sup> August, shortly attracted considerable attention, and sold 313 units until the end of the year 2003.

Developed by the Marketing and R&D team of Otokar, the M2000 Platinum Series came with brand-new equipment in line with the expectations of the minibus users who are keen on accessories on a vehicle. Outstanding with its xenon-blue headlights, white-glazed blinkers, silver metallic front grill, the vehicle has addressed to all the difference-seeking minibus users, with its new design of its rear face, bonded glazing, new metallic-framed rear lights assembly, and the redesigned ventilation group on the roof. M2000 Platinum has also been admired by its users with its powerful interior ventilation, double-purpose lighting, glossy handrails, new upholstery, new radio & cassette player, pneumatic driver's seat, and its instrument panel embellished with metallic parts.

In addition to the İzmir International Fair, M2000 Platinum was also introduced to its buyers at the AUTOSHOW 2003, the 3<sup>rd</sup> Mediterranean Automobiles, Commercial Vehicles, and Subsidiary Industry Fair held at Antalya, and the 2<sup>nd</sup> International Middle East Industrial Fair held at Diyarbakır.

During 2003, Otokar started to publish a bulletin titled “Otokar Hattı” (The Otokar Line), driven by the Koç Group's philosophy of being closer to the consumer.

Being the leader of the city transport since many years ago, Otokar has emphasised once more the importance it attached to its customers, and aimed at reinforce the communication of the minibus operators with Otokar, the Company who had been manufacturing the vehicles they consider as their “soul mates”. Prepared in such a way that the minibus operators enjoy reading, the “Otokar Hattı” started to meet with the minibus owners and users, as well as the

# Otokar

representatives of the associations and cooperatives concerned at Istanbul every 2<sup>nd</sup> month, as of September 2003.

# Otokar

## SMALL BUSES

### **“An uncommon record: A market share of over 20 percent within one year”**

Although a newcomer in the market with its 25 and 27-seat small buses, Otokar, has broken a record within a time as short as one year, and achieved a market share beyond its first-year target during 2003.

Sultan smallbusses exhibited in the year a successful performance in the niche market of 23 to 31-seat vehicles they belonged to. 2,694 vehicles were sold in the said market during 2003, and an increase of some 80 percent by number of units sold were observed compared to the previous year. In this market, the market share of Otokar surpassed 20 percent, with 562 units of Sultan sold, and the brand was ranked in the third place by number of units sold in the niche market within the first year of Sultan.

In addition to retail sales in the domestic market, Sultan has been among the prioritised preferences in the procurement operations of the public organisations. Existence with a newly-launched vehicle in such procurements has been an indicator of the achievement of Otokar in the midibus market. By the end of year 2003, Otokar was placed orders for 70 small buses in total, which vehicles were intended to be operated by various public institutions and organisations. 11 of the same involved sales to municipalities.

During 2003, in addition to the domestic sales, export operations were intensively continued for the Sultan small buses, which were fully designed by the Otokar engineers, and manufactured within Otokar. A total number of 67 Sultan were exported to Algeria, Lebanon, Saudi Arabia, and Iraq within the first year. The most rooted name of automotive in the field of mass transportation, Otokar has been the first Turkish company who exported small buses to the Iraqi market after the war.

With the purpose of introducing the Sultan small buses to its target group, Otokar participated in the local and overseas commercial vehicle fairs. At the 3<sup>rd</sup> Mediterranean Automobiles, Commercial Vehicles, and Subsidiary Industry Fair held at Antalya, and the 2<sup>nd</sup> International Middle East Industrial Fair held at Diyarbakır, the Otokar stands have been the most visited ones. Besides, the commercial vehicles fairs held in the foreign markets, Algeria, Belgrade, and Syria, were the other venues where Otokar showed itself off with its Sultan small buses.

In connection with the promotional activities of Sultan, final users from various regions of Turkey were invited to the Adapazarı plant, introduced the vehicle; and individual visits were regionally through dealers in various parts of Turkey.

As a result of the fact that the small buses were addressed to the nationwide market of Turkey, the dealer and service network preparations were commenced in 2003, and 3 new dealers joined the Otokar Family this year. For purpose of evaluation of the period, transfer of targets and data, and reinforcement of communications, the Company met with dealers from all parts of the country twice within the year 2003.

# Otokar

The R&D Department of Otokar started in 2003 the work to develop the existing minibus versions, and add new vehicles to the range of products. The developments performed on the 25 and 27-seat small buses in line with the customers' requests were implemented on the 2004-model vehicles launched to the market in August.

# Otokar

## TRAILERS, SEMI-TRAILERS

### **“The first and unique ISO9001-certified trailer manufacturer of Turkey”**

The domestic trailer sales during 2003 has been 4,000 units. Otokar has reached a figure of sales of 813 units with the trailers it manufactured under the brand name “Fruehauf.” The market share of the Company in this field has been realised as 20 percent as a whole during 2003. Otokar has been the second Company in the market by the end of 2003.

The largest sale in year 2003 was made to the Economic Enterprise of RODER, the Ro-Ro Marine Operators and Combined Transporters Association, with 200 units consisting of 125 canvas-covered and 75 refrigerated semi-trailers.

In the year 2003, in which the state budgets were decreased compared to the previous years, 24 trailers were sold to the public entities in one sale only.

Having had delivered -- units of tankers to Iraq prior to the war, Otokar exported 17 Fruehauf-brand tankers after the war, during 2003. For the contracts which had been signed between the Turkish and Iraqi companies before, yet were suspended due to the war, on the other hand, Otokar has been one of the companies whose contracts are reactivated.

A total number of 52 trailers in different versions were exported to various countries during 2003.

Otokar has satisfied its sectoral responsibility; reinforced the sectoral prestige by attending the congresses of UND (International Transporters Association), and RODER (Ro-Ro Marine Operators and Combined Transporters Association).

Authorised service agreements were signed with two companies in Mersin and Antakya during 2003.

The D&R work for semi-trailers was continued during 2003. The first and only ADR (European Agreement concerning the International Carriage of Dangerous Goods by Road)-approved aluminium liquid-fuel tanker semi-trailer in Turkey was designed, manufactured, and launched for sale by Otokar.

Development work of existing products in the field of trailers too was continued during year 2003. A new version was switched to in the textile carrying semi-trailers, and the full trailers. The weight of the vehicle was reduced by approximately 500 kg, the rear and side door designs were modified visually, and the hangers were redesigned. In order to render the interior of the vehicle brighter, white plywood has been adopted, and details to minimise labour were modified. Besides, new customs-compatible speed-slider vehicle has been developed and manufactured.

Type approvals for bumpers, side barriers, brakes, and electrical systems, as well as some required parts were obtained from RDW-Holland and RWTÜV-Germany, in compliance with the European-Community regulations. Besides, for the double-

# Otokar

decked and side-doored Iceliner vehicle, the ATP (Agreement on the International Carriage of Perishable Foodstuffs and on the Special Equipment to be Used for Such Carriage) certificate was obtained from RWTÜV-Germany.

During the year 2003, also the Scope Extension Audit of the ISO9001 certificate issued by BVQI was successfully passed, and the trailer production was incorporated into the scope. Hence, Otokar has become the first and only ISO9001-certified trailer manufacturer in Turkey.