

FORD OTOSAN



Ford Otomotiv Sanayi A. Ş.
1 January – 30 September 2016
Interim Report



COMPANY INFORMATION

Board of Directors and Committees

According to Article 10 of our Articles of Incorporation, all affairs and management of Ford Otosan shall be conducted by the Board of Directors composed of at least 8 members, the total number of the members shall be even, and shall be elected for a period not exceeding three years in accordance with the provisions of the Turkish Commercial Code and regulations of the Capital Markets Board. Save for the mandatory provisions of the Corporate Governance Principles of the Capital Markets Board with respect to the independent members of the Board of Directors, the General Assembly may replace the members of the Board of Directors at any time as deemed necessary. Two of the elected board member shall meet the qualification of independence stipulated in the Corporate Governance Principles regulations of Capital Markets Board.

In our Ordinary General Assembly Meeting held on March 29th, 2016, the number of members of our Board of Directors was defined as 14, including 2 Independent Members. Our Board of Directors that would be serving until Ordinary General Assembly Meeting in order to audit 2016 accounts are as below:

Rahmi M. Koç	Honorary Chairman
Y. Ali Koç	Chairman
James Duncan Farley Jr	Vice Chairman
Linda A. Cash	Member
O. Turgay Durak	Member
Steven Armstrong	Member
İ. Cenk Çimen	Member
William R. Periam	Member
Roelant C. de Waard	Member
Ali İhsan İlkbahar	Member
Mehmet Barmanbek	Independent Member
L.Martin Meany	Independent Member
Haydar Yenigün	Member – General Manager
Lisa K. King*	Member – Deputy General Manager

Our Board of Directors took below decisions on March 29th, 2016 on the Committees:

- Mr. Mehmet Barmanbek and Mr. Leonard Martin Meany have been elected to the Audit Committee membership pursuant to Communiqué Series:X, No:22 of the Capital Markets Board.
- Mr. Leonard Martin Meany has been elected as the chairman, and Mr. Ali İhsan İlkbahar, Mr. Lyle Alexander Watters and Mr. İsmail Oğuz Toprakoğlu as the members of the Corporate Governance Committee established pursuant to the Communiqué on Corporate Governance Serial: II, No:17.1 of the Capital Markets Board (the “Communiqué” in short).
- Mr. Mehmet Barmanbek has been elected as the chairman, and Mr. İsmail Cenk Çimen and Mr. Lyle Alexander Watters as the members of the Early Determination and Management of Risk Committee established pursuant to the Communiqué.
- Mr. Mehmet Barmanbek has been elected as the chairman, and Mr. İsmail Cenk Çimen and Mr. James Duncan Farley Jr as the members of the Remuneration Committee established pursuant to the Communiqué.

*William R. Periam will leave Ford Otosan due to his new appointment as Chief Financial Officer in Ford of Europe as of August 1st but remains a member of the Board of Directors. Lisa Tresign King is assigned as the new Deputy General Manager; effective as of August 1st. Ms. Barbara Jean Samardzich resigned from membership of the Board of Directors due to retirement, effective from October 05, 2016. Mr. Steven Robert Armstrong is assigned to the membership of Board of Directors

Shareholder Structure:

Ford Otosan's shareholder structure as of September 30th, 2016 is as follows:

Company Name	Value of Share (TL)	Number of Share	Share Capital (%)
Koç Holding A.Ş	134,953,357	13,495,335,714	38.46
Vehbi Koç Foundation	3,558,449	355,844,870	1.01
Koç Holding Retirement and Support Fund Foundation	3,259,202	325,920,231	0.93
Temel Ticaret A.Ş	2,355,885	235,588,500	0.67
Koç Group Companies	144,126,893	14,412,689,315	41.07
Ford Motor Company	143,997,037	14,399,703,676	41.04
Free Float	62,786,070	6,278,607,009	17.89
Total Nominal Capital (TL)	350,910,000	35,091,000,000	100

TURKISH AUTOMOTIVE INDUSTRY AND FORD OTOSAN

1. Domestic Automotive Industry and Ford Otosan

Turkish automotive industry sales reached 650,438 units in 9M, down 6% YoY. Passenger car sales decreased 2%, medium commercial vehicle sales decreased 8%, light commercial vehicle sales decreased 11% and truck sales decreased 46%.

The share of PCs in the total industry was 75%. LCV industry share was 12%.

The share of PCs in the total industry						
9M16	9M15	2015	2014	2013	2012	2011
75%	73%	72%	73%	75%	68%	65%

Turkish Automotive Industry Sales in 9M:

	2016 9M	2015 9M	Change
Passenger Car	489,365	500,905	-2%
Light Commercial Vehicle	77,484	86,708	-11%
Medium Commercial Vehicle	69,650	75,375	8%
Truck	12,742	23,556	-46%
Total*	650,438	689,529	-6%

* Covers all heavy commercial vehicles excluding buses and midibuses.

In the first nine months, share of import vehicle sales in PC was 76%, LCV was 48%, and total industry was 69%.

Share of import vehicle	PC	LCV	Total
9M16	76%	48%	69%
9M15	73%	48%	66%
2015	74%	44%	67%

Source: Automotive Distributors' Association

As of 2016 September-end, Ford Otosan had 11.7% (12.7%) market share in total industry and ranked 3rd. Ford Otosan's retail sales decreased by 13% to 75,912 (87,401) compared to same period of last year. In the passenger car segment where competition is the most intense, our market share was 5.8% (6.9%). Ford Otosan ranked 2nd in the light commercial vehicle and heavy commercial vehicle segment with 26.8% (26.1%) and 26.9% (25.0%) market share, respectively. Ford Otosan was the market leader in the medium commercial vehicle segment with 33.5% (32.5%) share.

2. Production and Capacity

In the first nine months of the year, total production volume was 241,493 (239,114), up by 1%. 90,649 (89,788) units new Transit and 98,463 (95,206) units Custom were manufactured in the Kocaeli plant, 48,890 (46,568) units Courier were manufactured in the Yeniköy plant and 3,491 (7,552) units Cargo truck were manufactured in the İnönü Plant. As a result total capacity utilization rate was 78% (77%).

3. Export, Domestic and Wholesale

Export Markets

According to the European Automobile Manufacturers' Association (ACEA) (www.acea.be) in September the demand for new commercial vehicles up to 3.5t was up by 6.8% in Europe, our biggest export market. In the first nine months, commercial vehicle sales increased 13.5%. Our main export market commercial vehicle sales were as below:

	2014	2015	1Q 2016	1H 2016	Jul'16	Aug'16	Sep'16	Total
UK	18.7%	15.6%	1.2%	3.0%	-0.2%	6.3%	1.9%	2.7%
Germany	7.3%	4.2%	9.3%	10.9%	0.5%	53.8%	5.6%	12.9%
Italy	16.4%	12.4%	30.0%	31.3%	50.1%	117.8%	46.3%	41.5%
Spain	33.2%	36.1%	8.9%	13.8%	5.6%	18.5%	12.2%	13.0%
France	1.5%	2.0%	9.6%	12.4%	2.5%	17.4%	-2.1%	9.8%
Total	11.3%	11.6%	11.3%	13.2%	8.1%	35.8%	6.8%	13.5%

Exports

Ford Otosan's export volumes were 188,735 (180,135) up by 5% compared to same period of last year due to strong market conditions and rising demand. 81% of the Transits sold in Europe 72% of the Ford brand commercial vehicles were manufactured by Ford Otosan.

Our export revenues increased by 16%, reaching 8,720 (7,499) million TL.

Domestic Sales

Total Turkish automotive sales decreased 6% during the first nine months of 2016. Ford Otosan's domestic wholesale volumes were down 15% YoY to 77,168 (91,249) units, as the market shifted more towards the PC segment where Ford Otosan has a focus on profitability more than market share. Domestic revenues were TL 3,320 million, down 7% YoY with lower volumes.

Total Sales

Total sales units decreased 2% to 265,903 (271,384). Total revenues increased 8% to TL12,640 million (TL11,731 million). Export share in total revenues was 69% (65%).

4. Investments

In the first three quarters of the year capital expenditures were 449 million TL (326 million TL) including capitalized R&D spending.

5. R&D Activities

In the first nine months of the year, TL359 million (TL257million) pre-capitalization R&D expenditure was made for various product development projects. R&D projects are carried out in line with product programs and the number of R&D engineers is 1,631.

6. Personnel

As of September 30st, 2016, Ford Otosan has a total of 10,464 employees composed of 2,732 white collar and 7,732 blue collar workers. (December 31, 2015: total of 10,676 employees composed of 2,732 white collar and 7,944 blue collar workers). Ford Otosan continues to have the highest employment in Turkish automotive sector. Our blue collar employees are as part of the Collective Bargaining Agreement which was signed between Turkish Metal Union and Turkish Employers' Association of Metal Industries (MESS) that will be valid until 31st August 2017.

The Collective Bargaining Agreement was signed between Turkish Metal Union and Turkish Employers' Association of Metal Industries (MESS), where our company is also a member, on December 17th, 2014 for the 01.09.2014-31.08.2017 period.

7. Profitability

Rising import costs resulting from weaker TL/€ (3.28 in 9M16 versus 2.97 in 9M15) and lower domestic volumes burdened profitability. However we delivered solid results with:

- Positive domestic sales mix: Share of import vehicles was 36%
- Pricing to offset the impact of TL devaluation
- Strong export volumes driving high CUR (78% in 9M16)
- Cost reduction actions

Gross profit was up by 11% YoY to TL 1.452 million. EBITDA grew by 3% YoY to TL 1.082 million. Operating profit was down by 1% YoY to TL 744 million, due to:

- Decline in net other income to TL 16 million in 9M16 from TL 61 million in 9M15 driven by lower fx income.
- 14% YoY rise in depreciation and amortization.

Profit before tax rose by 13% YoY to TL 656 million mainly explained by 48% decline in net financial expenses. Net income was TL 638 million, up 15% YoY, due to 30% lower tax expenses YoY.

Margins: Gross 11.5% (up 35 bps YoY); EBITDA 8.6% (down 35 bps YoY); EBITDA excluding other income 8.4% (flat); Operating 5.9% (down 50 bps YoY); Net 5.0% (up 30 bps YoY)

8. Financing

€416 million loan repayment was made in January-September period where €404 million was borrowed in new loans. Total debt level was €799 million as of September-end, down from (2016 June-end: €900 million, 2015 September-end: €855 million) from €806 million at the beginning of the year. Cash balance as at the end of the period is TL607 million (TL980 million).

Ford Otosan continues to follow financial risks very closely and maintains prudent policies. The main policies regarding various risks are summarized in the Note 2 of the financial statements.

9. Main Financial Indicators

Summary Balance Sheet (Million TL)	30.09.2016	31.12.2015	% Change
Current Assets	4,009	4,031	-1%
Property, Plant and Equipment - Net	3,293	3,251	1%
Total Assets	8,542	8,428	1%
Current Liabilities	3,639	3,824	-5%
Total Liabilities	5,244	5,368	-2%
Shareholders' Equity	3,298	3,060	8%
Summary Income Statement (Million TL)	30.09.2016	30.09.2015	% Change
Revenues	12,640	11,731	8%
Export	8,720	7,499	16%
Domestic	3,920	4,231	-7%
Gross Profit	1,452	1,306	11%
Operating Profit	744	749	-1%
Financial Income / (Expense)	-86	-166	-48%
Profit Before Tax	656	583	13%
Net Income	638	557	15%
Other Financial Data (Million TL)	30.09.2016	30.09.2015	% Change
Depreciation and Amortization	339	297	14%
EBITDA	1,082	1,046	3%
Capital Expenditures	-449	-326	38%
Cash Flow Statement (Million TL)	30.09.2016	30.09.2015	% Change
Beginning Balance of Cash & Equivalents	980	577	70%
Net Cash Generated from Operating Activities	477	632	-25%
Net Cash Used in Investing Activities	-426	-306	39%
Net Cash Used in Financing Activities	-423	-178	138%
End of Period Balance of Cash & Equivalents	607	726	-16%

Financial Ratios	30.09.2016	31.12.2015
Current Ratio	1.10	1.05
Liquidity Ratio	0.63	0.73
Net Financial Debt / Tangible Net Worth	0.75	0.63
Current Assets / Total Assets	0.47	0.48
Current Liabilities / Total Liabilities	0.69	0.71
Total Liabilities / Total Liabilities and Equity	0.61	0.64
Return on Equity*	25.8%	27.5%
	30.09.2016	30.09.2015
Gross Margin	11.5%	11,1%
EBITDA Margin	8.6%	8,9%
EBITDA Margin excluding other income/expense	8.4%	8,4%
Operating Margin	5.9%	6,4%
Net Margin	5.0%	4,7%

* Annualized net income divided by shareholders' equity.

10. Other Material Developments

- Our Board of Directors has resolved the following in their meeting dated 3rd August 2016.
 - Lyle Alexander Watters, who was nominated by Class C shareholders and elected to the Board of Directors (“Board”) during the Ordinary General Assembly on March 29, 2016, resigned from Board membership due to the change of his position in Ford Motor Company effective from August 03, 2016. The Board has accepted Mr. Watters’ resignation and resolved to cancel his signature authority.
 - Lisa Katharine King, who was nominated by Class C Shareholders, has been appointed as a Board member to serve until the next General Assembly of Shareholders. This appointment will be submitted to the approval of the General Assembly at its next meeting.
 - William Richard Periam, who has been acting as Deputy General Manager, has moved to a new role within Ford Europe as of August 01, 2016. His Board membership and Group (B) signature authority will continue.
 - William Richard Periam has been elected as a member of the Corporate Governance Committee and Early Determination and Management of Risk Committee, replacing Lyle Alexander Watters.
 - Lisa Katharine King will have Group (B) signature authority as specified in Internal Directive No: 1.
- Taking into consideration the opinion of the Audit Committee, the Board of Directors resolved in their meeting on September 23, 2016 to nominate Bařaran Nas Bađımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş. (A member of PricewaterhouseCoopers) to audit our Company's financial reports for 2017 accounting period and to fulfill all other obligations required for the auditors by Turkish Commercial Code numbered 6102 and Capital Markets Law numbered 6362 and related regulations and to present the selection for the approval of the General Assembly of Shareholders.
- Our Board of Directors has resolved the following in their meeting dated 5th October 2016.
 - Barbara Jean Samardzich, who was elected to the Board of Directors, nominated by Class C shares during the Ordinary General Assembly on March 29, 2016, resigned from membership of the Board of Directors due to retirement, effective from October 05, 2016. The Board of Directors has accepted her resignation and resolved to cancel her signature authority.
 - Steven Robert Armstrong, who was nominated by Class C Shareholder Ford Motor Company, is assigned to the membership of Board of Directors to serve until the next General Assembly of Shareholders. This assignment will be submitted to the approval of the General Assembly at its next meeting.
 - Steven Robert Armstrong will have Group (B) signature authority specified in Ford Otomotiv Sanayi A.Ş. Internal Directive No: 01 of the Board of Directors.
- According to the Dividend Communiqué numbered II-19.1, TL 312.309.900 will be paid to shareholders as dividend in cash. TL 312.309.900 TL dividend will be paid by assuming each share with a nominal value of 1-TL pays gross Kr 89,00 (%89,00) and net Kr 75,65 (%75,65). Extraordinary General Assembly Meeting will be held on November 18, 2016 Friday at 10:00 to review the proposal and general agenda.

11. Guidance

Total Industry Volume 980K - 1,000K

Ford Otosan:

Retail Sales Volume 115K-120K

Export Volume 260K-265K

Wholesale Volume 375K-385K

Production Volume 335K-340K

Capex (fixed assets) €160-170 million

FORD OTOMOTİV SANAYİ A.Ş.