

FORD OTOSAN



Ford Otomotiv Sanayi A. Ş.
1 January – 30 June 2017
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 23rd, 2017, 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 2017 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 31st, 2017 on the Committees:

- With a designation of the duties of Board Members, Mr. Yıldırım Ali Koç was elected as the Chairman, and Mr. James Duncan Farley Jr was elected as the Vice Chairman.
- 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. William Richard Periam 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. William Richard Periam 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.

Shareholder Structure:

Ford Otosan's shareholder structure as of June 30th, 2017 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
Publicly Held	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 409,370 units in 1H, down 9% YoY. Passenger car sales decreased 10%, light commercial vehicle sales decreased 2%, medium commercial vehicle sales decreased 9%, and truck sales decreased 24%.

The share of PCs in the total industry was 74.7%. LCV industry share was 12.7%.

The share of PCs in the total industry						
1H17	1H16	2016	2015	2014	2013	2012
74,7%	75,3%	75%	72%	73%	75%	68%

Turkish Automotive Industry Sales in 1H:

	2017 1H	2016 1H	Change
Passenger Car	305,924	338,482	-10%
Light Commercial Vehicle	51,828	52,690	-2%
Medium Commercial Vehicle	43,406	47,645	-9%
Truck	7,276	9,618	-24%
Total*	409,370	449,320	-9%

* Covers all heavy commercial vehicles excluding buses and midibuses.

In the first six months, share of import vehicle sales in PC was 69%, LCV was 49%, and total industry was 64%.

Share of import vehicle	PC	LCV	Total
1H17	69%	49%	64%
1H16	74%	47%	63%
2016	75%	48%	68%

Source: Automotive Distributors' Association

As of 2017 June-end, Ford Otosan had 12.0% (11.9%**) market share in total industry and ranked 2nd. Ford Otosan's retail sales decreased by 8% to 49,195 (53,457) compared to same period of last year. In the passenger car segment where competition is the most intense, our market share was 6.1% (6.3%), while in the light commercial vehicle segment our share was 26.4% (26.7%). Ford Otosan was the market leader in the medium commercial vehicle segment with 34.1% (33.1%) share. In the heavy commercial vehicle segment, Ford Otosan ranked 2nd with 29.3% (25.8%) market share.

2. Production and Capacity

In the first six months of the year, total production volume was 184,859 (173,987), up by 6%. 65,541 (66,901) units new Transit and 82,813 (69,763) units Custom were manufactured in the Gölcük Plant, 34,374 (34,806) units Courier were manufactured in the Yeniköy Plant and 2,131 (2,517) units Cargo truck were manufactured in the İnönü Plant. As a result total capacity utilization rate was 89% (84%).

3. Export, Domestic and Wholesale

Export Markets

According to the European Automobile Manufacturers' Association (ACEA) (www.acea.be) in June the demand for new commercial vehicles up to 3.5t was up by 3.2% in Europe, our biggest export market. In the first six months, commercial vehicle sales increased 4.7%. Our main export market commercial vehicle sales were as below:

	2015	2016	1Q17	Apr '17	May '17	Jun '17	YTD
UK	15.6%	1.0%	-0.9%	-18.8%	-5.3%	1.8%	-3.7%
Germany	4.2%	8.5%	8.9%	-10.2%	11.6%	-4.5%	3.3%
Italy	12.4%	50.0%	9.4%	-7.9%	9.2%	13.3%	6.5%
Spain	36.1%	11.2%	23.6%	1.1%	21.1%	8.7%	16.3%
France	2.0%	8.2%	10.2%	0.5%	7.6%	2.0%	6.4%
Total	11.6%	11.9%	8.1%	-7.0%	8.4%	3.2%	4.7%

Exports

Ford Otosan's export volumes were 152,388 (135,583) up by 12% compared to same period of last year, reaching a historic quarterly high level, due to strong market conditions and rising demand. During this period, 81% of the Transits sold in Europe were manufactured by Ford Otosan.

Our export revenues increased by 43%, reaching 8,675 (6,057) million TL.

** Data inside the brackets represent 1H16 numbers.

Domestic Sales

Domestic revenues were TL 2,977 million, up 9% YoY despite the 12% volume contraction thanks to pricing strategy and positive sales mix. Domestic wholesale volumes were 48,659 units with profitability focus in PCs and market contraction.

Total Sales

Total revenues were up 32% YoY to TL 11,653 (8.800) million on the back of 201,047 units (+5.5% YoY). The share of exports in total revenues was 74%, up from 69% in 1H16.

4. Investments

In the first half of the year, capital expenditures were 370 million TL (253 million TL) including capitalized R&D spending.

5. R&D Activities

In the first six months of the year, TL230 million (TL218 million) 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 1,531.

6. Personnel

As of June 30th, 2017, Ford Otosan has a total of 10,653 employees composed of 2,658 white collar and 7,995 blue collar workers. (December 31, 2016: total of 10,261 employees composed of 2,700 white collar and 7,561 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

Profitability was solid in 1H17 despite 1- Rising import and production costs resulting from 21% weaker TL/€ (1H17: 3.94 vs. 1H16: 3.26), higher inflation and commodity prices 2- Lower domestic volumes 3- Higher share of fleet sales. Drivers were:

- + Pricing strategy aimed at capturing the cost impact of TL devaluation, commodity prices and inflation.

- + Slightly positive domestic sales mix: Share of import vehicles was down to 35% in 1H17 from 37% in 1H16; share of high margin products (MCV+Truck) was up from 34% in 1H16 to 35% in 1H17.

- + High CUR (89% in 1H17)

- + Ongoing cost reduction actions Gross profit was up by 18% YoY to TL 1,172 million. Operating profit grew by 36% YoY to TL 708 million. TL 9 million net other expense reported in 1H16 (driven by TL 18 million net fx loss) turned positive with TL 30 million net other income (driven by TL 18 million net fx gains), supporting the operating profit. EBITDA grew by 27% YoY to TL 944 million. Despite the %75 increase net financial expenses due to the 192% rise in net fx loss, profit before tax rose by 32% YoY to TL 630 million. Net income was booked as TL 634 million, up 37% YoY, higher than PBT due to deferred tax asset.

Margins: Gross 10.1% (down 120 bps YoY); EBITDA 8.1% (down 40 bps YoY); EBITDA excluding other income 7.8% (down 70 bps YoY); Operating 6.1% (up 20 bps YoY); and Net 5.4% (up 20 bps YoY).

Financing

€276 million loan repayment was made in January-June period where €407 million was borrowed in new loans. Total debt level was €893 million (€900 million) as of June-end, from €771 million at the beginning of the year. Cash balance as at the end of the period is TL1,737 million (TL793 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.

8. Main Financial Indicators

Summary Balance Sheet, Million TL	30.06.2017	31.12.2016	% Change
Current Assets	5,579	4,676	19%
Property, Plant and Equipment - Net	3,287	3,303	0%
Total Assets	10,357	9,286	12%
Current Liabilities	4,740	4,308	10%
Total Liabilities	7,025	6,123	15%
Shareholders' Equity	3,332	3,164	5%
Summary Income Statement, Million TL	30.06.2017	30.06.2016	% Change
Revenues	11.653	8,800	32%
Export	8.676	6,057	43%
Domestic	2.977	2,743	9%
Gross Profit	1.172	994	18%
Operating Profit	708	521	36%
Financial (Expense) / Income	-77	-44	75%
Profit Before Tax	630	476	32%
Net Income	634	464	37%
Other Financial Data, Million TL	30.06.2017	30.06.2016	% Change
Depreciation and Amortization	236	223	6%
EBITDA	944	744	27%
Capex	-370	-253	46%
Summary Cash Flow Statement, Million TL	30.06.2017	30.06.2016	% Change
Beginning Balance of Cash & Equivalents	1,189	980	%21
Net Cash Generated from Operating Activities	766	129	%493
Net Cash Used in Investing Activities	-369	-248	%49
Net Cash Used in Financing Activities	151	-69	NM
End of Period Balance of Cash & Equivalents	1.737	793	%119

Financial Ratios	30.06.2017	31.12.2016
Current Ratio	1.18	1.09
Liquidity Ratio	0.85	0.79
Net Financial Debt / Tangible Net Worth	0.67	0.64
Current Assets / Total Assets	0.54	0.50
Current Liabilities / Total Liabilities	0.67	0.70
Total Liabilities / Total Liabilities and Equity	0.68	0.66
Return on Equity***	38.1%	30.2%
	30.06.2017	30.06.2016
Gross Margin	10.1	11.3
EBITDA Margin	8.1	8.5
Operating Margin	6.1	5.9
Net Margin	5.4	5.3

*** Annualized net income divided by shareholders' equity.

9. Other Material Developments

- **EBRD Loan Agreement:** As initially disclosed in our announcement dated 23.03.2017, € 150 million loan agreement was signed and funded directly by EBRD to finance upcoming investment projects.
- **Dividend Distribution:** TL 400.037.400 total gross cash dividend, Kr 114 gross (Kr. 96.9 net per share with 1-TL nominal value) was paid on April 3rd 2017.
- **2017 Annual Vacation:** Due to scheduled annual vacation, there will be a shutdown period for Ford Otosan's Yeniköy Plant from July 27th, for Gölcük and İnönü Plants from August 14th. Production will be started on September 6th after Eid Holiday. During this time periodical maintenance will take place.
- **Production Capacity Increase:** Ford Otosan has taken a decision to increase the annual production capacity of the Gölcük Plant from 290,000 units to 330,000 units in order to meet increasing export demand. The investment will cost US\$52 million and planned for completion in September 2018. When finalized, the production capacity in our three plants will rise from 415,000 units per annum to 455,000 units per annum.

10. Guidance

Total Industry Volume 900K – 950K

Ford Otosan

Retail Sales Volume 110K-120K
Export Volume 290K-300K
Wholesale Volume 400K-420K
Production Volume 365K-375K
Capex (fixed assets) €180-200 million

FORD OTOMOTİV SANAYİ A.Ş.