

FORD OTOSAN



Ford Otomotiv Sanayi A. Ş.
1 January – 30 June 2020
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 16th, 2020, 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 2020 accounts are as below:

M. Rahmi Koç	Honorary Chairman
Y. Ali Koç	Chairman
Stuart J. Rowley	Vice Chairman
William R. Periam	Member
Thomas Rückert ^(*)	Member
İ. Cenk Çimen	Member
O. Turgay Durak	Member
Lisa K. King	Member
Joerg Beyer	Member
Ali İhsan İlkbahar	Member
Fatma Füsün Akkal Bozok	Independent Member
Leonard Meany	Independent Member
Haydar Yenigün	Member – General Manager
Dave Johnston	Member – Deputy General Manager

The Board of Directors has resolved in their meeting dated 1st April 2020 that in accordance with Capital Markets Board's Communique II-17.1. on Corporate Governance;

Mrs. Fatma Füsün Akkal Bozok and Mr. Leonard Martin Meany have been elected to the Audit Committee membership. 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 which also fulfills the duties assigned to the Nominating Committee. Mrs. Fatma Füsün Akkal Bozok 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. Mrs. Fatma Füsün Akkal Bozok has been elected as the chairman, and Mr. İsmail Cenk Çimen and Mr. Stuart John Rowley as the members of the Remuneration Committee.

(*) Our Board of Directors has resolved in their meeting dated 21st April 2020 that Mr. Thomas Peter Ludwig Rückert, who was elected to the Board of Directors, nominated by Group C Shares during the Ordinary General Assembly on March 16, 2020, left from membership of the Board of Directors effective from April 21, 2020. Mr. Johan Egbert Schep nominated by Group C Shares 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 the next meeting.

Shareholder Structure:

Ford Otosan's shareholder structure as of June 30th, 2020 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 ⁽¹⁾	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

(1) Ford Deutschland Holding GmbH: 100% owned by Ford Motor Company.

TURKISH AUTOMOTIVE INDUSTRY AND FORD OTOSAN

1. Domestic Automotive Industry and Ford Otosan

Turkish auto industry grew by 30% in 1H20 to 259,471 units. Sales rose across all segments YoY: PC 30%, LCV 45%, MCV 16% and Heavy Trucks 44%.

Domestic sales were robust except when Covid-19 impact peaked in March and April. Pent-up demand, low interest rates, strong second hand market and ongoing campaigns supported this performance.

Turkish automotive industry sales were as follows in 1H20.

	1H20	1H19	Change, %
Passenger Car	203,595	156,378	30
Light Commercial Vehicle	28,102	19,418	45
Medium Commercial Vehicle	22,371	19,348	16
Truck	4,818	3,343	44
Total ⁽²⁾	259,471	198,903	30

(2) Covers all heavy commercial vehicles excluding buses and midibuses.

Source: Automotive Distributors' Association and TAİD

PC industry share was 78.5% (1H19: 78.6%). LCV industry share increased to 10.8% (1H19: 9.8%).

The share of PCs in the total industry						
1H20	1H19	2019	2018	2017	2016	2015
78%	79%	79%	77%	74%	75%	72%

Source: Automotive Distributors' Association

In the first half of the year, share of import vehicles in PC increased YoY and reached 61% whereas share of import vehicles in LCV decreased to 44%. In total, the share of import vehicles was 57%.

Share of import vehicles	PC	LCV	Total
1H20	61%	40%	57%
1Y19	56%	47%	54%
2019	59%	47%	57%

Source: Automotive Distributors' Association

In 1H20, Ford Otosan had 10.2% (10.3%)⁽³⁾ market share in total industry ranked 3rd. Ford Otosan's retail sales increased by 29% to 26,425 (20,485) compared to the same period of last year. In the passenger car segment, our market share was 3.4% (3.5%) due to our focus on profitability. We maintained our leadership in the commercial vehicle segment with 35.1% market share. Our market share was 27.6% (31.0%) in light commercial vehicles, 45.8% (41.7%) in medium commercial vehicles and 29.9% (27.8%) in heavy commercial vehicles.

(3) Data inside the paranthesis represent 1H19 numbers throughout the report.

2. Production and Capacity

As of March 20, the production activities was suspended due to the disruptions in supply, sales and delivery processes with European Countries and Ford Motor Company within the framework of the measures taken to reduce the effects of Covid-19. The operations have been started again on 27 April at Eskişehir Plants and on 4 May at Kocaeli Plants. As a result of the suspension in production, in the first half of the year, total production volume was 117,507 (186,667) down by 37%. As a result total capacity utilization rate was 52% (82%).

Plant	Model	1H20 Production	1H19 Production	Change, %
Gölcük	Transit	41,637	66,829	(38)
Gölcük	Custom	54,237	88,930	(39)
Yeniköy	Courier	19,118	28,904	(34)
Eskişehir	Ford Trucks	2,515	2,004	25
Total		117,507	186,667	(37)

3. Export, Domestic and Wholesale Review

Export Markets

According to the European Automobile Manufacturers' Association (ACEA) (www.acea.be), van sales (commercial vehicles up to 3.5 tons) decreased 31.8% in 1H20 YoY. The contraction in the industry due to the pandemic was at the peak level in March and April. From May, the effects of Covid-19 decreased and sales started to recover. Industry sales in our main export markets were as follows:

%	2019	Jan '20	Feb '20	Mar '20	Apr '20	May '20	Jun '20	1H20
UK	2.4	5.9	-2.0	-54.3	-86.2	-74.1	-24.8	-44.6
Germany	6.9	-3.0	-3.8	-25.3	-46.9	-45.5	-17.7	-25.1
Italy	3.4	-2.4	-6.2	-71.2	-89.9	-35.2	-5.3	-35.9
Spain	0.3	-20.2	-5.9	-67.2	-91.0	-58.7	-19.8	-45.7
France	4.5	-9.2	3.0	-64.8	-83.8	-32.9	7.8	-31.2
Poland	1.5	-18.3	-10.5	-32.7	-55.6	-43.4	-14.1	-29.8
Total	2.8	-10.2	-4.0	-49.8*	-69.6*	-41.3*	-10.4*	-31.8*

*EU excluding UK.

Exports

As Europe became the center of the epidemic, March and April saw significant declines in sales. The industry started to pick up May onwards and our exports also started recovering with the gradual normalization in production and sales.

Although Ford's sales in European commercial vehicle market decreased by 40% YoY in 1H20, Ford remained Europe's No. 1 commercial vehicle brand since 2015 and reached 13.8% market share with +0.9 pps increase. 84% of the Transit family vans sold in Europe were manufactured by Ford Otosan.

Ford Otosan's export units decreased 43% YoY in 1H20 to 96,452 (168,148) units due to contraction in export market and Ford's sales. Export revenues came in at TL 11,539 (16.056) million. The YoY decrease in export revenues was limited to 28% due to our cost plus export structure, product mix and strong € against TL despite 43% decline in export volume.

Domestic Sales

Domestic wholesale volumes were up 30% to 26,419 (20,303) units in 1H20 due to growth in the domestic market. Domestic Revenues were TL 3,555 (2,353) million in 1H20, up 51% as a result of growth in volumes, product mix and ongoing pricing discipline.

Total Sales

Total sales volumes were down 35% to 122,871 (188,451) units in 1H20. Total Revenues decreased 18% YoY to TL 15,094 (18,409) million.

4. Investments

Capital expenditures were TL 343 (549) million including capitalized R&D spending.

5. R&D Activities

TL 297 (284) 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 1,389.

6. Employees

As of June 30th, 2020, Ford Otosan had a total of 10,875 employees: 2,630 salaried and 8,245 hourly. (December 31, 2019: total 10,899 employees: 2,609 salaried and 8,290 hourly). Our hourly employees are part of the Collective Bargaining Agreement signed on January 29, 2020 between Turkish Metal Union and Turkish Employers' Association of Metal Industries (MESS) and valid until 31st August 2021.

7. Profitability

Profitability was strong in 1H20 due to,

- i- Robust domestic volumes and favourable product mix,
- ii- Higher contribution of domestic market,
- iii- Pricing discipline,
- iv- Additional stringent cost reduction measures, capital spending cuts and OpEx control against Covid-19 impact and
- v- Cost-plus export contracts.

Gross Profit declined 9% YoY to TL 1,750 (1,915) million due to lower volumes. Increased focus on cost reduction actions, additional stringent measures and short term working allowance support from the government limited further deterioration. EBITDA grew 8% YoY to TL 1,708 (1,576) million while EBITDA per vehicle reached a record high of EUR 1,739 in 1H20 and EUR 2,016 in 2Q20. EBITDA excluding the currency impact was down 3% YoY to TL 1,526 (1,568) million. Operating Profit was up 4% YoY to TL 1,265 (1,215) million mainly explained by the increase in Net Other Income due to 1) declining non-cash financial expenses on trade payables of material purchases driven by lower interest rates, 2) decreasing manufacturing related purchases in line with the lower production volumes (reported under Unearned Financial Expense).

Net Financial Expenses increased 11% YoY driven by 12% higher Net FX Loss. Profit Before Tax increased 2% YoY to TL 892 (878) million. Net Income was TL 909 (888) million, up 2% and higher than PBT due to Tax Income Resulting from Deferred Tax Asset.

Margins: Gross 11.6% (+120 bps YoY); EBITDA 11.3% (+270 bps YoY); EBITDA excluding other income 10.1% (+160 bps YoY); Operating 8.4% (+180 bps YoY); and Net 6.0% (+120 bps YoY).

8. Financing

€280 million loan repayment was made in 1H20 where €544 million was borrowed in new loans. Total debt level was €1,179 million (€887 million) as of June-end, up from €915 million at the beginning of the year. Cash balance as at the end of the period is TL 5,195 million (TL 1,919 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	30.06.2020	31.12.2019	% Change
Current Assets	11.754	10.157	16%
Property, Plant and Equipment - Net	4.353	4.437	-2%
Total Assets	18.025	16.406	10%
Current Liabilities	9.973	8.645	15%
Total Liabilities	13.875	11.741	18%
Shareholders' Equity	4.150	4.665	-11%
Summary Income Statement, Million TL	30.06.2020	30.06.2019	% Change
Revenues	15.094	18.409	-18%
Export	11.539	16.056	-28%
Domestic	3.555	2.353	51%
Gross Profit	1.750	1.915	-9%
Operating Profit	1.265	1.215	4%
Financial Income/(Expense)	-373	-336	11%
Profit Before Tax	892	878	2%
Net Income	909	888	2%
Other Financial Data, Million TL	30.06.2020	30.06.2019	% Change
Depreciation and Amortization (4)	444	361	23%
EBITDA	1.708	1.576	8%
Capex	-343	-549	-38%
Summary Cash Flow Statement, Million TL	30.06.2020	30.06.2019	% Change
Beginning Balance of Cash & Equivalents	3.200	1.391	130%
Net Cash Generated from Operating Activities	1.459	991	47%
Net Cash Used in Investing Activities	-340	-548	-38%
Net Cash Used in Financing Activities	868	82	957%
End of Period Balance of Cash & Equivalents	5.188	1.916	171%

(4) 1H20 numbers include TL 22 million (TL 22 million) impact from IFRS16 due to classification from manufacturing overhead and operating expenses to D&A. Please refer to footnotes 2,10,11,33 of the financial statements for further details.

Financial Ratios	30.06.2020	31.12.2019
Current Ratio	1,18	1,17
Liquidity Ratio	0,93	0,87
Net Financial Debt / Tangible Equity	1,21	0,78
Net Debt / EBITDA (5)	1,19	0,94
Current Assets / Total Assets	0,65	0,62
Current Liabilities / Total Liabilities	0,72	0,74
Total Liabilities / Total Liabilities and Equity	0,77	0,72
Return on Equity (6)	43,8%	42,0%
	30.06.2020	30.06.2019
Gross Margin	11,6%	10,4%
EBITDA Margin	11,3%	8,6%
Operating Margin	8,4%	6,6%
Net Margin	6,0%	4,8%

- (5) EBITDA is calculated on a rolling 4-quarter basis.
- (6) Annualized net profit/ equity.

10. Other Material Developments

- A loan agreement with amount EUR equivalent of maximum USD 150 Million is signed with IFC (International Finance Corporation), a member of the World Bank Group, to finance upcoming vehicle development and production facility investments including efficiency, capacity, modernization etc. in the following 4 years. The loan has a 6 year term with two year grace period. Principal and interest payments will be made semiannually. Indicative annual interest rate excluding bank charges is 2.15 % and final rate will be determined at the date of disbursement which is planned to be before September 15th, 2020.
- There will be a shutdown period in our plants due to scheduled annual vacation as below. During this time periodical maintenance will take place in all our plants.

	Date to Begin	Date to End
Gölcük Plant	30 July 2020	15 August 2020
Yeniköy Plant	30 July 2020	13 August 2020
Eskişehir Plants	30 July 2020	13 August 2020

- Due to the epidemic of COVID-19, which affects the whole world, the slowdown in economic activities, supply, production and sales in the country and sector where the Company operates and in the countries where the sales are made in parallel with the developments in general economic activities. There have been disruptions in their processes. In this context, the production activities were temporarily suspended in 2020 between the dates of 20 March - 4 May in the Company's Gölcük Plant, 23 March - 4 May in the Yeniköy Plant and 23 March - 27 April in the Eskişehir Factories. On 27 April, Eskişehir Factories and on 4 May, factories in Kocaeli campus have started their production activities again.

In this process, the necessary actions were taken by the Company management to minimize the possible effects of COVID-19 on the Company's operations and financial position. In this process, there was no delay in both payments to suppliers and collections of receivables. With the reduction of restrictions to prevent the spread of the epidemic, production and sales activities continue uninterrupted as of the balance sheet date.

COVID-19 effect of the need to continue with the world as well as in how much time in Turkey, can not be estimated yet clear is how much can be spread; As the severity and duration of the effects become clearer, it will be possible to make a more clear and healthy assessment for the medium and long term. However, while preparing the interim consolidated financial statements dated June 30, 2020, the possible effects of the COVID-19 outbreak were evaluated and the estimates and assumptions used in the preparation of the financial statements were reviewed.

In this context, the Company has tested possible impairments in the financial assets, stocks, tangible assets in the interim financial statements dated June 30, 2020 and no impairment has been identified.

11. Guidance

Total Industry Volume	670K – 720K
Ford Otosan:	
Retail Sales Volume	80K-90K
Export Volume	230K-240K
Wholesale Volume	310K-330K
Production Volume	295K-305K
Capex (fixed assets)	€130-150 million

FORD OTOMOTİV SANAYİ A.Ş.